

**REPORT ON PROCEEDINGS BEFORE**

**PORTFOLIO COMMITTEE NO. 5 – INDUSTRY AND  
TRANSPORT**

**SUSTAINABILITY OF THE DAIRY INDUSTRY IN NEW SOUTH  
WALES**

**CORRECTED**

**At Casuarina Room, Club Taree, Taree on Monday 19 November 2018**

**The Committee met at 9:00 am**

**PRESENT**

The Hon. Rick Colless (Acting Chair)

The Hon. Wes Fang

The Hon. Courtney Houssos

The Hon. Mark Pearson



**The ACTING CHAIR:** Good morning and welcome to the third hearing of the inquiry into the sustainability of the dairy industry in New South Wales. I am the Acting Chair today. The Chair of the Committee, the Hon. Robert Brown, is unable to be here today due to ill health. The Hon. Scot MacDonald and the Hon. Mick Veitch also send their apologies. Today, my colleague the Hon. Wes Fang will be filling the role of the Deputy Chair. Before I commence, I acknowledge the Biripi people, who are the traditional custodians of this land. I also pay respect to the elders past and present and extend that respect to other Aboriginal persons present. Today the Committee will hear evidence from dairy farmers and representatives of the Taree Collective Bargaining Group and Dairy Connect.

Before we commence I will make some comments about the procedures for today's hearing. Today's hearing is open to the public and a transcript of today's hearing will be placed on the Committee's website when it becomes available. In accordance with the standard broadcasting guidelines, while members of the media may film or record Committee members and witnesses, people in the public gallery should not be the primary focus of any filming or photography. I remind media representatives that they must take responsibility for what they publish about the Committee proceedings. It is important to remember that parliamentary privilege does not apply to what witnesses may say outside of their evidence of the hearing. I urge witnesses to be careful about any comments they may make to the media or to others either after or before completing their evidence as such comments would not be protected by parliamentary privilege if another person decided to take an action for defamation. The guidelines for the broadcast of proceedings are available from the secretariat.

There may be some questions that witnesses could only answer if they had more time or certain documents to hand. In these circumstances, witnesses are advised that they can take a question on notice and provide an answer within seven days. Due to the short reporting time frame for this inquiry, the Committee has resolved that answers to questions will be provided within seven days. To aid the audibility of this hearing, I remind Committee members and witnesses to speak into the microphones. Several seats have been reserved near the loudspeakers for persons in the public gallery who may have hearing difficulties. Finally, I ask everyone to turn their mobile phones to silent for the duration of the hearing.

**TIM BALE**, Dairy Farmer, Chairman, Taree Collective Bargaining Group, sworn and examined

**The ACTING CHAIR:** Would you like to make an opening statement before we start questions?

**Mr BALE:** I assume you have my submission. As an opening statement, I want to qualify why I am here. I have been involved in the dairy industry for 35 years or more. I was initially involved after working on dairy farms as a dairy livestock officer with the former NSW Department of Agriculture. I bought my own farm and have been farming for about 24 years. Since deregulation, I helped form the Taree Collective Bargaining Group when we realised that we needed to form something to be able to talk to larger multinational companies. That is the background. My job today is to try to fill in some of those gaps to do with collective bargaining groups and some of the history we have had liaising with factories and processors, as well as the later negotiating we had with supermarkets and Woolworths. I am also a member of the group that has a direct contract with Woolworths. We are a little bit unique in that regard.

**The ACTING CHAIR:** Thank you. I will start with questions. There has been a lot of discussion throughout this inquiry about the cost of production and the farm gate price. Can you give us a brief overview of what your farm gate price is and how that relates to your cost of production on a per litre basis?

**Mr BALE:** I am not sure if I can give you the farm gate price. We have a confidentiality agreement with Woolworths. However, I can say that we negotiate a 4¢ premium for provenance of the Manning Valley clean, green family image. When we first commenced we were getting 4¢ more than the average local farmer. The prices vary at the moment and we are actually getting a very similar price to the premium paid to A2 milk suppliers. Prices vary in the district now from around 49¢ to 50¢ up to 60¢.

**The ACTING CHAIR:** That would be the average for the district?

**Mr BALE:** The average for the district is probably about 53¢.

**The ACTING CHAIR:** What about your cost of production?

**Mr BALE:** My cost of production is around 49¢ to 50¢ a litre. However, it has risen a lot over the last couple of years and it has risen a lot over the last few months. I have done a calculation based on the new grain price and new hay prices for next year. I believe it will lift my costs by about 8¢ a litre and put me up to about 57¢ a litre.

**The ACTING CHAIR:** Without disclosing the confidential information you just talked about, would that be putting a lot of pressure on your business?

**Mr BALE:** Yes, it would. I have another source of income, which will help me. But I am planning on line balling for 2019.

**The ACTING CHAIR:** Thank you.

**The Hon. WES FANG:** I read your submission with interest. I am keen to know a little bit more about how the collective bargaining group operates with processors. Is it the collective bargaining group that also has a contract with Woolworths itself?

**Mr BALE:** Yes. We have a sub-group. There are actually two collective bargaining groups, in a way. There is the initial, overall Taree Collective Bargaining Group, and then we have the Manning Valley Fresh group, which is a sub-group of that. The reason for that is that the original collective bargaining group approval with the Australian Competition and Consumer Commission [ACCC] was through Australian Dairy Farmers as a blanket approval for any farmers coming together as a group. The mistake they made in that was that the approvals were done when we were talking to processors and mentioned processors only. We had to go and get our own approval separately. We engaged a competition lawyer to get that for us. We went and put a proposal to the ACCC to get a special approval for that sub-group to actually talk to supermarkets.

**The Hon. WES FANG:** How do the direct supermarket contracts with, for example, Woolworths operate? The majority of the evidence we have received so far explains that the producer is contracted to the processor and the processor then has an on-contract with either Woolworths or their own brand. They may have a mix where they do some generic branding and some of their own branding. If you sell your milk directly to Woolworths, how does that operate? Does Woolworths collect it and process it through a processing contract it has itself?

**Mr BALE:** Yes, that is true. Parmalat processes it as a contractor. Woolworths handles the logistics. It will engage a separate contractor. As a matter of fact, the contractor is now completely separate to what the Parmalat pick up contractor is. A separate contractor picks our milk up in a separate truck. It is then accumulated

locally at Cundletown. A B-double goes down every afternoon separately. Then there is a silo set aside at Parmalat. It is meant to be empty at 9 o'clock at night. The B-double goes straight into that particular silo and then there is a special production line that goes through for Farmers' Own milk and it is processed overnight and then it goes back to Woolies distribution centres the next day. We did go through that process where Woolworths actually thought that to make this work they would have to buy the milk off us and then sell the milk back to Parmalat so they could process it then buy the packaged milk again. We just said that is not how it works. But they thought that Parmalat, for example, had to own the milk so they could do what they wanted to do with the milk, which is what they do with their milk.

For example, in your cheaper brand of milk or your dollar a litre milk, for want a better word, they can actually standardise that milk. If our milk comes in at 4 per cent butter fat it goes out at 4 per cent butter fat. What you buy of our milk is like it used to be. It is just pasteurised and some of it is homogenised and that is it. There is no other alteration allowed. That is what gives you the taste.

**The ACTING CHAIR:** Just a point of clarification, the dollar a litre milk that Woolies sell and your Farmers' Own brand are actually two completely different products?

**Mr BALE:** Completely different products, yes. You can taste the difference in it and obviously we push that issue, but if Parmalat's standard milk is coming in at 4 per cent fat they really only need it to be 3.3 per cent, so they will skim that milk to take 0.6 or 0.7 off because they can get money for that. There is extra value adding that they do by pulling product out.

**The Hon. WES FANG:** Does Parmalat pay Woolworths for what they skim off?

**Mr BALE:** No, but they do not skim ours.

**The Hon. WES FANG:** No, say the milk in the Woolworths truck has a 4 per cent fat content and it goes to Parmalat into the special silo in which they all process the Woolworths brand milk, if it is 4 per cent and they take 0.6 off, what happens?

**Mr BALE:** No, they do not take anything out of ours because they cannot because they do not own it. They only simply pay to process it. What I am saying is the milk that they buy off the farmer, they own that so they can do whatever they like to it as long as it prescribes to the milk regulations in the shop.

**The Hon. WES FANG:** A comment from the Australian Competition and Consumer Commission [ACCC] report was that when there is movement in the cost of production the producer is able to pass those on through a processor to the retailer and that is part of the mechanism that they were saying is the way that costs of production are forwarded on. We have heard some other testimony about where that is a little bit problematic. With your direct contract with Woolworths, is there a mechanism where your cost of production going up—because of the drought, grain prices, hay prices, electricity prices—can be passed on? Is there a way that you can manipulate and renegotiate the contract to absorb those?

**Mr BALE:** Yes, there is. Actually the same lawyer drew up our contract. We took a National Foods contract that we had and we already knew a lot of those things in there that we did not like. We used that as a base and took everything out of it that we thought was unfair or whatever and then put our own standards in that. That contract was 99 per cent approved by Woolworths. That gives us the ability to bargain every six months. As a matter of fact, we have a claim in there now. Because I have been against the drought levy. Part of my report is, in of all this, farmers need a major lift in the base price. We do not need any drought levies. All the drought has done is bring this to the fore. It has not caused the problem.

But what you were saying about the others being able to—you were talking about the ability to go back and pass on that cost. We have been told that for years, that it is in the processor's contract with supermarkets that they can go back. But my understanding is when the initial first contracts were done 17 or 18 years ago the question was asked to the processor, "Is this price sustainable for farmers?" and without any hesitation or any recall it was said, "Yes, it is." It would be great if we could get in the room the supermarkets buyers and the process decision-makers and actually ask them those questions. I have had the ability to be able to ask Woolworths, "Have they come back and asked?" Well, no, they have not. Then you talk to the processors and they say, "Oh yeah, they won't do it." But they have not asked. To us, it is some of these basic things that are just not happening.

**The Hon. WES FANG:** It seems to me that the collective agreement you have with Woolworths is a lot fairer in a lot of ways than what we have heard about in previous testimony from other producers. You are able to go back to Woolworths and negotiate price and everything else. My last question is around the drought levy that you spoke about earlier. Being a farmer who produces milk for Woolworths, have you received any of that levy from Woolworths?

**Mr BALE:** No, we do not actually get it because it is not on our milk. It is only being passed on to the farmers who supply that milk, and it is only a small percentage of the milk too. Parmalat suppliers, because Parmalat has the contract with Woolworths, they are receiving the bulk of that. It does not work out at 10¢ a litre to them. It is working out at about 3¢ a litre.

**The Hon. WES FANG:** It is a lot less than people think is going back to the farmers.

**Mr BALE:** And then it is only until Christmas, basically. It is a short period.

**The ACTING CHAIR:** In terms of the total milk production in the Manning Valley, what proportion of it is under the collective bargaining regime?

**Mr BALE:** Now it is probably 70 to 80 per cent. Maybe a little bit more. It has grown. Because we really only had two suppliers in the area back then, the majority of the suppliers were supplying National Foods. It started out from a meeting of National Foods suppliers. Probably the collective bargaining group then would have been about 50 to 60 per cent of the milk. Then as things changed and we went to Parmalat en masse at one stage, then Parmalat brought in Dairy Farmers suppliers, National Foods bought Dairy Farmers and Norco came into the area. In our collective bargaining group now we have representatives from all processors really.

**The Hon. COURTNEY HOUSSOS:** I am going to go back a step. Can you tell us roughly how much milk is produced in the Manning Valley?

**Mr BALE:** It is probably an easier area to use the mid North Coast from Gloucester to Kempsey because I am also in the Mid North Coast Dairy Advancement Group, which covers that sort of area. That area is about 160 million litres. You can nearly say within an hour radius of Taree there is about 160 million litres per year.

**The Hon. COURTNEY HOUSSOS:** You said 70 to 80 per cent of that is covered by the collective agreement. Is that correct?

**Mr BALE:** No, that is 70 to 80 per cent of the Manning Valley.

**The Hon. COURTNEY HOUSSOS:** We are talking about different regions.

**Mr BALE:** Yes, the mid North Coast but it is actually the Taree collective bargaining group.

**The Hon. COURTNEY HOUSSOS:** I am from Forster, I am familiar with the geography of the area. I wanted to ask you about transparency across the supply chain, because that is obviously a key issue that we are trying to deal with. I wanted to delve a bit further into the idea of a direct agreement with Woolies giving you more visibility over the supply chain rather than less. Do you feel that you have an increased ability to get to the customer by negotiating directly with Woolies?

**Mr BALE:** Yes, I do and when I started it, I was bargaining on behalf of the whole bargaining group, not just seven. It took two years of meetings and negotiating before we actually had something, and it was probably 18 months before we even thought something was going to happen. When they finally said, "We're going to start it as a trial and we're going to do 5 million litres," at that stage I was probably representing 70 to 80 million litres. There were two of us down there and we got up and went crook and were going to leave the room. They got us back and we managed to negotiate that up to 17 million litres, hence the seven. The dilemma I was in then was, what do you do? Do you say either all or none, or do you put your foot in the door hoping that this would grow? My idea was that if this could grow, if we could sell all that milk and then bring more farmers in, then that would be fantastic. That was what the original goal was. We have not been able to do that.

**The Hon. COURTNEY HOUSSOS:** You have not, you said?

**Mr BALE:** No, we have not been able to do that for the initial group. We have been able to talk with Woolies, though, about how things are done. As much as they have taught us, we have taught them. The reality for them was having farmers in the room and we were just telling it like it was with how Parmalat said things. There were issues where they said, "Hang on a minute; that is not we have been led to believe. This is how it is." There was a period of learning, but the problem is that they are still selling all the other milk as well. Farmers Own goes on the market on the shelf to look after itself; it does not necessarily get funded, extra marketing or anything like that. It might have the occasional ad in the Woolies magazine in the shop, but there is no ad on TV, no major marketing or anything like that. We complain about that all the time.

**The Hon. COURTNEY HOUSSOS:** That is obviously a key part of what we are talking about. The inability of the farmer to speak directly to the consumer came up in a previous hearing. Out of interest, how much shelf space do you get? Do you have a mandated amount of shelf space that Woolies gives you?

**Mr BALE:** No, it is different. It depends on the individual store managers. We get a lot better locally. There are some store managers who have really embraced it. Obviously, the further you get away from the

Manning Valley, the more it is just another brand. But our milk is in 225 stores in New South Wales. When it initially went local here, it lifted Woolies' overall milk sales in the mid North Coast region by 32 per cent. It actually brought people into the shop, but I am not sure that necessarily worked all around the State.

**The Hon. COURTNEY HOUSSOS:** It is an interesting idea. You say that the final part is getting the message out to the consumer to say this brand should be supported, because it is a sustainable one for farmers.

**Mr BALE:** Yes.

**The Hon. COURTNEY HOUSSOS:** That is a good issue for us to find out.

**The ACTING CHAIR:** What is the price of Farmers Own in the supermarket?

**Mr BALE:** That is a good question, because I never buy milk. I think it is \$3.20 for two litres.

**The Hon. COURTNEY HOUSSOS:** That is comparable to Dairy Farmers.

**Mr BALE:** Yes, it is exactly the same price as Dairy Farmers brand.

**The Hon. COURTNEY HOUSSOS:** Parmalat is obviously a big component and Norco has started to come in. Are there any other processors around the mid North Coast?

**Mr BALE:** Yes. National Foods probably does not have them now; they were probably handing them over, but there are the Dairy Farmers Supply Cooperative farmers still. There are Parmalat, Norco, Saputo and, of course, also Real Milk at Wauchope.

**The Hon. COURTNEY HOUSSOS:** In your conversations—and I am happy if you give us anecdotal evidence—do you find any difference between the processors that you deal with?

**Mr BALE:** Yes, definitely. One of the problems we had was that Parmalat will not recognise me as a spokesman for the collective bargaining group, because they do not supply Parmalat. We have tried to get this through to them, but that does not make any difference. For instance, they recognised me before we were supplying Parmalat—so when they needed the milk, they recognised our group and were happy to use our group; when they do not need the milk then they do not know our group. You will be talking to someone later from our Parmalat subcommittee that we have had to form, and then we have had to help them. In essence, Parmalat is talking to us but through other people.

**The Hon. COURTNEY HOUSSOS:** There is no fairness in the negotiating over the supply chain, is there?

**Mr BALE:** No. Over the 18 years it has always been a factor that when they need milk, we will get a great hearing; when they do not need milk, we have to fight for it.

**The Hon. COURTNEY HOUSSOS:** Obviously, you are a lesser bargaining power than someone who has a less perishable product. Your milk is going to go off pretty quickly, is it not?

**Mr BALE:** That is right.

**The Hon. COURTNEY HOUSSOS:** It is not a perfect market. Would you support a milk commissioner? We have heard different iterations that have been proposed by different groups. There is an idea of having an independent person who sits down with farmers and says, "This is how much it costs to fairly produce milk, and we appreciate that that involves a fair wage for the farmer as well as all of your other components." The commissioner would also look at a sustainable price for processors, and that gives a sustainable price for consumers. Would you agree with something like that?

**Mr BALE:** I would agree with that. The problem is that I am a businessperson and I know that when we are in business we make our own choice to be in business. We are not wage earners as such; a lot of farmers do not get a wage. Because farmers do not get a wage, that is why they are still there a lot of the time. They just keep going. I thought that one of the questions you would be asking today is, if I were the government, what would I do? I honestly do not know, because how do you legislate these things? How do you make large companies that are not Australian—foreign-owned companies—come to the table? If we appoint someone like that, or even if we have a mandatory code and all those things, if there is no enforcement, it does not get us anywhere. All these things can help, but if people just give us piecemeal speaking and do not support these things then we are not going to get anywhere. It all comes back to what farmers need now, which is cash. They just need money. The fact is that a lot of farmers are getting the same price virtually that they were getting 20 years ago. I do not know how you fix that; there are probably more educated people who can come up with that sort of thing. It is a matter of how you appoint someone but give them the power to make these big companies come to the table.

**The Hon. COURTNEY HOUSSOS:** That is obviously a key challenge for us. You said that what farmers need now is money and you said you have some other sources of income because you have diversified a bit. How sustainable are those other sources of income?

**Mr BALE:** Very sustainable. I am a real estate agent as well; I have a real estate business. I was a farmer first, and I went into real estate when the dairy industry deregulated because I still owed too much money. Quite frankly, because I was used to doing budgets and all that sort of stuff, I did a cash-flow budget on deregulation. At that time I had one employee and I worked out that if I put my employee off and if my wife and I did 16 hours a day, seven days a week, we could probably clear 14 grand for the year between us. I thought no, I have more skills than that and I have to keep the worker on and go and find something else. I am still doing that, because it has given me the ability to do things like this as well and help in other ways. That is why I still do it.

**The Hon. COURTNEY HOUSSOS:** Thank you for your submission and for your time today. It has been very valuable for the Committee.

**The Hon. MARK PEARSON:** I noted with interest that you retained a competition lawyer to help construct this business arrangement with Woolworths. Was the ACCC helpful?

**Mr BALE:** The ACCC were very helpful. It allowed us to put a draft proposal in and then correct it, so it was very helpful. With the help of the lawyer, we actually put together a presentation—more or less a slide presentation—and we went to Canberra and met with them. The biggest thing the ACCC did was allow us to put a draft in first and then made some comments on it. So we pretty well knew that when the final proposal went in it would be approved. They were very interested, and they still are very interested, in how negotiations go with Woolworths and how we are treated.

**The Hon. MARK PEARSON:** This came about through the frustration of working with processors?

**Mr BALE:** Yes.

**The Hon. MARK PEARSON:** It is a bit new to us because it is the first time we have come across this almost direct negotiating of a contract with a retailer. Can you tell us a little bit about the story, how it began and how it led to you contacting ACCC and getting advice and now you have this unique contract.

**Mr BALE:** It is a long story, but I will try to summarise it. The reason that happened is going back to when we were national food suppliers. They put a two-tier pricing on us, so we had a contract volume and over that contract volume they dropped the price to 14¢ a litre. Anyone who was smart with their contract volume was okay; anyone who was a bit conservative with their contract volume were in a lot of trouble. We refused to sign contracts at that time. We were trying it with power, saying we were not signing. The hard part was to get all farmers to stand together because they would bypass the committee and try to get farmers to sign their contracts individually, as they kept doing. We had to show that solidarity and power, which is hard for farmers to do because they are all individuals, et cetera.

At the time, Parmalat were just starting to come in. I rang them and said, "You have got a two-week window. If you really want us, you need to get up here and meet with us", which they did. They virtually jumped on it. We had a big meeting. They offered to pay slightly more for all our milk with no tier two. We negotiated hard on the spot, because we were all in the room. I said, "If you give us a little bit more, you have got all these people now." So they did that. Then they went out and sourced dairy farmer suppliers to add up. At the time, the Woolworths contract was about 140 million litres. We only pulled them up to 70 or 80 million litres. That is still only halfway, so they had to get a lot more milk. They were promising people verbally that if they did a contract for a few months until they line up with everybody else on 1 January, whatever, the price would not go down.

What happened, they negotiated a price in the contract with Woolworths. Then they came back and those new suppliers dropped our price 3¢ a litre. You want proof that \$1 a litre drops the farm gate price, here is the proof. So I rang ACCC and we tried to organise a meeting with Parmalat to say, "You lied to us", basically. I was interviewed by a solicitor from ACCC, but they said, "There is not enough evidence to continue." I thought, "You do not need evidence when you have got fact", but that is where it went. I had a fairly heated meeting with the Parmalat representative. I actually told him, "You lied to us. This is wrong." He told me then, "You don't know how hard it is to deal with Woolworths. If you think you can do better"—I told him, "You never had the milk. You've gone and signed the contract and then you've got the milk. Under false pretences, you've dropped the price; it is not right." I said, "I may as well have bloody signed the contract with Woolworths and then gone and got the farmers signed up." He said, "You want to try. You don't know how hard it is."

That is basically how it started, because then I was advised, "Tell Woolworths." So I thought, "I will tell Woolworths." I was told, "Don't just tell the general manager, write to all the directors." I have a friend who is also a dairy farmer who is an ex-business consultant, and he said, "Write to them at their home address." I said,



"How do you get their home address?" He said, "I'll get that for you." We got all that lined up. We wrote a letter to them more or less telling them that story, what has happened, do they realise that? The next thing, I had a phone call from the general manager who said, "Do you want to come down for a meeting?" I said, "How about you bring a few of your buyers up here and I'll show you the Manning Valley and what we are." He said, "Okay", and they did. That sort of started it.

I went through it with them and I said, "I may as well have signed the contract." They said, "Funny you should say that. You should put a proposal to us." So we put a proposal about Manning Valley fresh milk, clean, green farming, mostly high rainfall, pasture-fed cows—I put all that sort of stuff in the proposal. That started a chain of meetings. Initially I think the meetings were them just bleeding us for information because we were probably blurting it out, but then it started to grow legs. Many a time I drove to Sydney to Bella Vista for an hour and a half meeting and then drove home and all the way home was thinking, "What did I just do?" I went there to say g'day and drove home again. I cannot believe this. But it did end up getting somewhere. The only thing I have got to finish is to thank the manager of Parmalat for stirring me up.

**The ACTING CHAIR:** That is a good note to finish on. We are out of time. Thank you, Mr Bale, for your evidence and your submission. There may be questions from members who are not here. If there are, we ask that you get that information back to us within seven days because it is a truncated hearing.

**Mr BALE:** Yes.

**The ACTING CHAIR:** Thank you for your evidence today.

**Mr BALE:** Thank you for hearing me.

**(The witness withdrew)**

**SHAUGHN MORGAN**, Chief Executive Officer, Dairy Connect, sworn and examined

**GRAHAM FORBES**, President, Farmers Group, Dairy Connect, sworn and examined

**The ACTING CHAIR:** Would one or both of you like to make a short opening statement?

**Mr FORBES:** Thanks very much for having the hearing in Taree. We appreciate the opportunity to address the inquiry. Dairy Connect is a broad-based dairy advocacy group that operates out of Sydney. It is not only New South Wales-based. We have other affiliates throughout Australia and throughout the world. We pride ourselves on that. We hope we are a go-to position so that when somebody wants to do something in the dairy industry we can facilitate development or handle issues within the dairy industry. I suppose the main thing that we have been concerned about recently is the imbalance of power, as the ACCC led to in their inquiry, between farmers and processors that we feel as though that is a major stumbling block at the moment.

It will require normal contractual arrangements to occur within the dairy industry. We believe if current contractual arrangements were contested that they would be illegal, but due to the nature of the imbalance of power between farmers and processors and the perishability of our product it is fairly hard to take that action. Also, since deregulation we are concerned about the attention to regulation or food safety within New South Wales. We had the Milk Marketing Board prior to that and things like milk testing and milk sampling and some of those procedural matters have slipped away, and certainly we would be supporting the position of the milk commissioner who could identify those issues through the industry.

**Mr MORGAN:** I will add that Dairy Connect is very grateful to the New South Wales Parliament and the Upper House in establishing this Committee. It is vitally important that New South Wales is recognised as being quite different to the other parts of Australia in terms of what we are. We are a fresh milk State. I think that has come through the hearings that you have held thus far. It is clearly evident that there is a lot of hurt in the dairy industry currently. Dairy farmers are finding it extremely difficult to find ways in which to make ends meet. The cost of production currently is well above that of the farm gate price that they are receiving from the processors to whom they deliver their milk.

You heard earlier from Mr Bale about a different mechanism that has been implemented by a small number of farmers. That is not the norm in Australia, nor in New South Wales. I will not go through our submission as you have already received it and no doubt your questions will deal with the issues that we raise there. I will emphasise that there are a number of areas that we need to consider. We believe that this inquiry and the recommendations that will be delivered next year will be able to provide a platform for consideration by both the Government, Opposition and crossbenches about ways in which we can find a mechanism to ensure not just the sustainability of the dairy industry in New South Wales but we are now looking at whether or not there is a survival aspect to what we do in the dairy industry in this State.

**The ACTING CHAIR:** Mr Forbes, given your long family history in the industry, you would have seen a lot of changes over the years. I guess the biggest change in recent times was deregulation. What was the industry like before deregulation compared with what it is now regarding profitability and opportunity?

**Mr FORBES:** I suppose there have been a number of major changes in that period, not just deregulation. We have gone from what was at the time of deregulation an industry that was controlled by the cooperative movement to one now that is controlled by large, multinational companies. Probably what a lot of people get confused about, there have been major changes going on behind the scenes, not just through deregulation. When we had deregulated industry we did have bodies that had very strong affiliation with the Government and if you had issues you had ways and means of being able to raise those issues, as in difficult farmers, and there was certainly a very strong process there. I believe since then that process is not near as strong or is somewhat broken down and it has left farmers vulnerable right across the board in their negotiations with their processors, whether it be on price or milk quality or all the other conditions that we have to adhere to to meet the conditions of the processor.

Basically since that time, in the regulated system we had a mechanism that you could put all the costs in. It was extremely regulated. Now there is virtually no relationship to the cost. Basically it is a dog eat dog world, as Mr Bale probably led to. It is very difficult, whilst the industry is supposedly deregulated, we have very little competition. The current agreement that I have is a five-year agreement and if I do not have another processor to take my milk at the end of that five years and I go uncontracted, well it will probably cost me in the vicinity of \$30,000 a month. We recently did have a farmer who went through that process and he lost \$30,000 each month until he was able to secure another processor. So there are some fairly harsh realities there that are quite anti-competitive.

**The ACTING CHAIR:** How do you see that the Norco Cooperative operates in comparison with the Parmalats of the world? They still are a fully operational cooperative.

**Mr FORBES:** I suppose they operate as a cooperative but when you are in an environment with other major players, you probably still have to play under the same rules. I suppose we do see some more levels of transparency. We are able to see some of the different milk products that go out there. When we saw Norco take on the major Coles contract, our milk price went up 3½¢ a litre. Since that time Norco has expanded its brand in route trade, and I have seen a 5¢ a litre drop over that period, whilst I believe the Coles contract is still intact and would have no effect on that. The other side is basically the cooperative is under a lot of pressure from those other major players in some of those contracts.

**The ACTING CHAIR:** That would be from the price coming down from the retailers?

**Mr FORBES:** Even so with the major multinationals. They can put pressure on certain contracts and may take a loss in certain areas to increase their branding. I think a lot of the pressure that is on the industry, whilst it has been blamed on the retailer, it is actually in fighting for branding of milk. We have seen major competition go on in that regard. I think a company like Norco is in quite a weak position against these large multinationals if they want to take a hit for three or five years to increase their brand share. An organisation like a cooperative can really struggle.

The other thing with cooperatives is there has been some concern after Murray Goulburn collapsed with the governance within cooperatives. It is a real concern for the industry. That has probably been one of the major weaknesses with cooperatives, poor governance. It has been shown by that. Unfortunately the ACCC did not take any action on those directors at Murray Goulburn and I believe it leaves a bit of a loophole in the system, there may not be enough pressure on cooperative directors to have very good governance, because basically with the ACCC, if they fail they are not going to take any action against them.

**The ACTING CHAIR:** Mr Morgan, you mentioned in your opening statement about the disconnect between the farm gate price and the cost of production. Would you like to expand on that and give the Committee an idea of what that gap is?

**Mr MORGAN:** At the current time I believe the Committee would be aware that the ACCC handed down its report and there is consultation going on in relation to a mandatory code. I believe that what has occurred in previous times is that the milk supply agreements that have been entered into by the dairy farmer as the producer, and the processor, has been manifestly unfair. There are clauses in there that you would consider to be unconscionable under any terms of the law. However, because of the bargaining power that is imposed it has been very difficult to be able to get a fair farm gate price above the cost of production that would enable them to ensure that their bills are paid on a monthly basis, school fees, food on the table, let alone such things as fodder and other commodities that they require on the farm itself.

That disconnect has continued to grow. We need to be able to restore balance, fairness and trust back into that supply chain. We need to look at ways that we can achieve that and at the current time it needs to be done at the processor and producer level so that we are able to have robust discussion about what the farm gate price is. And dairy farmers go from being price takers to being price negotiators. It is important that we have an opportunity to be able to have that robust discussion. The president of the farmers group, Graham Forbes, has already mentioned about the importance of the New South Wales milk or dairy commissioner.

We believe that is one mechanism by which a dairy farmer could have a point of call within government who could be seen to be independent of government, report to the Minister and to the Parliament to be able to provide, if not a yearly report on the state of dairying in New South Wales, at least be able to provide advice and guidance to producers about what it is that they are currently dealing with with their processors, in a way that is proactively positive in long-term negotiations. Because the contracts they enter into can be anywhere from three to five years, at a price that cannot be negotiated out of unless they are able to have some sort of further legal review.

**The Hon. WES FANG:** We heard testimony in the previous hearing that \$1 a litre milk has had a drastic effect on the industry. When we spoke to the ACCC it effectively said it came down to the power of the processors over the producers. In your opinion, having spoken to your membership, where does that imbalance really lie? Is it the relationship that the processors have with the retailers in producing that \$1 a litre milk, or is it between the processors and the producers because they have negotiating power, or is it a combination of both?

**Mr MORGAN:** It is clear that \$1 a litre milk undervalues the efforts of the dairy farmer, it undervalues the dairy industry and it undervalues what is a nutritious, fresh produce. We would continue to say that we need to be able to ensure the retail price of all dairy products needs to be increased across the board and that the processor has an obligation, if that were to occur, to ensure that the price that is passed down the value chain

allows for an increase in the farm gate price. At the current time that is not occurring. We need to ensure that the supermarkets have sufficient pressure put upon them to ensure that they have that return to the processor who, under the law, has to ensure their shareholders receive a return, not that they need to look after their producers.

We would continue to say as an organisation that supermarkets must look at ways to increase the cost and price of dairy products. We would say that \$1 a litre milk in itself provides a manifestly unfair value to the nutritious milk that is currently available in this State, and in other States and internationally. We believe that what has occurred recently with what has been referred to as a drought levy has provided a chink in the armour to that concept of \$1 a litre milk. It is up to organisations such as Dairy Connect now to put pressure back onto the supermarkets to find ways in which that \$1 a litre milk can change.

Whether I would say to you that you go out and buy branded milk as against \$1 a litre milk, I am not sure—the ACCC has said this—and the processors are passing the value back down to the producers. That being the case, Dairy Connect has advocated strongly that we need to restore that balance and fairness in the milk supply discussions, and that processors do what they are meant to do, negotiate more strongly with the supermarkets to increase what is the cost point at that retail level and increase the amount being passed down the value chain. That at the current time is not being done.

**The Hon. WES FANG:** To me that sounds very much like a market failure or an imbalance because of the power of the retailers and the processors. If the retail price of dairy products was to increase, what mechanisms would you recommend to ensure that that value chain is passed down and that the farm gate price is increased? The ACCC has said that even if there was an increase in the retail price there is no guarantee that the processor will pass that down to the producer.

**Mr FORBES:** I suppose it is a quite complex system of what happens in the dairy industry. I can understand how the ACCC came up with its recommendation in that regard. Being a Norco supplier we do have some transparency so we see A2 farmers getting 4¢ a litre extra—and that is to cover a lot of compliance so there is a slight margin in that—yet we are seeing A2 milk retailing for twice the price of the other milk. Really that in itself shows that the profit goes to the brand owner rather than coming back to the farmer. Also, when you do analyse the generic milk sales it is basically the processor and the supermarket that take the real hit on it.

They are not really making anything out of it. From my point of view as a farmer I cannot differentiate whether my milk goes into ice cream, cheese, generic milk, branded milk, route trade or whatever. I am getting a flat price. There is no transparency within the industry. We had hoped that the milk price index that was touted at the same time as the ACCC inquiry would have had some help in doing that but unfortunately the index that eventuated has been no use to the industry. I think in some ways that the industry needs to be a lot more transparent in the costings that occur through the industry.

I think some of the representation from farmers is fairly clouded because they do not understand transparently the costs throughout the industry. I think they are quite genuine in their approach but unfortunately there is quite a smokescreen throughout the industry—what happens, and the returns from different sectors of the industry. I suppose at the end of the day when we really do have a look at the industry it is the export industry that is the lowest denominator and it probably does not get that much publicity. I think it is just because people can walk into supermarkets and see milk there at \$1. If you asked a farmer how much they are actually getting out of that \$1 there are not too many farmers who could actually prove that.

**The Hon. COURTNEY HOUSSOS:** Thank you for your time and your submission. What in your view is a reasonable price per litre of milk for a farmer? We have obviously heard different testimony in the Southern Highlands as compared to here. I appreciate the diversity of the sector but do you have a view on that?

**Mr FORBES:** Certainly I would have to back up Mr Bale earlier when he was saying that production costs are 50 ¢ a litre and that farmers would have to receive a price in excess of 60¢ a litre to be able to show an economic and sustainable business. In the coming 12 months it will be extremely difficult because we have seen grain prices peak at the moment to record levels and all indications are that it will not be until the harvest in 12 months time that that pressure will come off. But who knows with world markets and that sort of thing. But that is the best guide we can have. Those grain costs have basically doubled in a 12 or 18 month period. That has added a very substantial amount to farmers' costs. So that could be 8¢ to 10¢ a litre I would say is going to be an additional cost to what was there last year.

**Mr MORGAN:** And certainly any price above the cost of production has to be sufficient to make sure it is an ongoing sustainable farming enterprise, otherwise the farmer is going to look at other options in terms of either off-farm income which then limits their opportunities to be able to get government support or in terms of being able to ensure future generations that they would like to see come into their farm. Not only is it above the cost of production, it has to be sufficiently above to ensure that it allows sufficient profit to be able to put away

money for future events that in this country occur on a regular basis, whether it be drought, flood or other circumstances that may befall a particular dairy farmer.

**The ACTING CHAIR:** Could I just expand on that? When you say that the cost of production is around 50¢ would that include all the farming family's wages at a respectable level, or it does not include farm labour?

**Mr FORBES:** That would be including farm labour.

**The ACTING CHAIR:** Contract labour, but would it also include the farmer's wages?

**Mr FORBES:** It depends. Some farmers will discount their labour and others, like on my farm, we have a larger percentage of contracted labour and it does not have much of an effect, whereas small single operators work for a pittance sort of thing.

**The Hon. COURTNEY HOUSSOS:** In your submission you talked about farmers having a direct trading relationship with supermarkets. We have heard first-hand one of those examples this morning that seems to be working quite well in cutting out some of the Chinese whispers that seem to be happening across the supply chain. Mr Morgan, are you aware of any other examples of that from across the State?

**Mr MORGAN:** I am not aware of it anywhere else within New South Wales. I think it is illustrated by both the Woolworths website and what Mr Bale said earlier about how it has been able to miss out the processor to be able to get a better farm gate price for them. Clearly it has been working overseas quite effectively in the United Kingdom. It is something that unfortunately the processors obviously would not like to see progress very far because they have a vested interest in maintaining where they currently are. I think it is also illustrative. You have the Parmalat collective bargaining group following on from our testimony.

But the problem with collective bargaining, per se—you may hear this shortly—is that those processors refuse to deal with a collective group even if authorised because they prefer to deal with the individual to ensure they are able to get the lowest price paid to them. That is just market forces at play. We are not advocating a reregulation of the industry. But there certainly has to be some sort of safeguards in place to protect their livelihoods. Whether it be something like the Farmers Own brand that Woolworths put out in both New South Wales and other States or some other mechanism. I am sure that we would look forward to the recommendations that this Committee will hand down in due course.

**The Hon. COURTNEY HOUSSOS:** No. I think that is an excellent example. When you talk about not wanting regulation, it is clear that deregulation has not led to the best outcomes for the dairy industry and there will be a need for someone to step in and create a fair playing field. The issue of lack of transparency over the value chain clearly needs to be addressed by the Committee. I note some of your recommendations around that, and I am very sympathetic to some of them. I refer to the Fair Milk logo campaign. We have seen the use of the term "milk" to refer to other products. Do you have a view on that?

**Mr MORGAN:** Dairy Connect has a very strong view of the use of the term "milk" by plant-based beverage producers. Again, it under values the work of dairy farmers generally. We have advocated strongly that we would say the term "milk" should be as the Food Standards Australia and New Zealand code says, that is, "the mammary secretion of an animal". At the current time that is not the case. We believe other products that are using the term should not do so. The European Court of Justice handed down a decision last year and France has regulated about the protection of such names and titles. In relation to products that are using that term, we believe that safeguards should be put in place, as has been done with other iconic terms such as "Bradman" and other such things to ensure that the term "milk" and dairy products generally are safeguarded.

**The Hon. COURTNEY HOUSSOS:** I want to talk about your recommendation regarding the school milk program and your work with Foodbank. Can you explain how that would work? Do you have any idea of the costs involved? I note you referenced the food prices inquiry, which I have spoken about recently. It is a passion project of mine and something I hoped would cover some of the issues canvassed in this inquiry. I think it is going to be very important. The intersection of the issues of food insecurity and the sustainability of the dairy industry are something we need to talk about. This might be a way. That would be very interesting to see.

**Mr MORGAN:** It has been said that the nutritional value of milk is plain to see. Nutritionists have generally talked about the high protein, calcium, iodine and other benefits that flow from milk itself. Clearly we have advocated with Foodbank NSW & ACT through its general manager John Robertson about ways in which we could assist to ensure that dairy produce, including milk, could be made available to schoolchildren on a daily basis so they are able to get the benefits that flow from its nutritional value. We are continuing to have discussions. You quite rightly state that our submission says we believe that one aspect of this Committee's recommendations could be that it should be expanded to included ways in which dairy produce could be provided to schoolchildren on a daily and a regular basis.

**The Hon. COURTNEY HOUSSOS:** You say in your submission that since deregulation there has been no state-based generic promotion of the important role of dairy consumption in health and nutrition—that builds on what we were talking about before—that can positively increase demand. I raised with Mr Bale the inability of the dairy farmer to speak directly to the consumer. I hazard a guess that there are many consumers who are not necessarily well informed but who are open to being informed on that. Do you think that the lower price for farmers means they are so focused on their own business that they have a limited ability to communicate with the consumer about how to make a better choice?

**Mr MORGAN:** It is not necessarily the dairy farmer that should be providing that sort of information. Their industry bodies should be leading the way, whether that is through the levy provided to Dairy Australia or other industry bodies such as Dairy Connect or Australian Dairy Farmers Group. It appears to us that it really is necessary for the marketing to be ramped up. In the United States it has been shown that 16 per cent of Americans believe that chocolate milk comes from brown cows. That sort of misinformation needs to be corrected. We need to think of ways to be able to positively put the benefits of milk and to encourage its sale and consumption. Rather than look at the negative, we are trying to look at the positive. That could be combined with things such as a milk logo campaign showing a label with the nutritional value clearly identifiable and the re-establishment of a New South Wales milk marketing board. It would not have mandatory powers but use persuasion, perhaps supporting the work of a New South Wales dairy commissioner. That might be a way forward to be able to ensure that such things are part of positive, proactive and long-term engagement.

**The Hon. MARK PEARSON:** Interestingly, retailers got behind animal welfare, for example, the Coles sow-stall-free campaign. I had a meeting with Woolworths when it was deciding to move towards free-range eggs for its home brand. Is there an animal welfare issue? Obviously retailers are sensitive to the question of animal welfare. Is the dairy industry facing an animal welfare issue because the retailers are pushing the price down at the farm gate so much? Is the dairy industry concerned about the impact on animal welfare as a consequence of retailers, distributors or processors driving down the price of milk?

**Mr FORBES:** When the dairy industry comes under pressure, farmers look for alternatives. Under the current circumstances, meat prices are very strong. The decision farmers are making is to reduce their herds because it is uneconomic to milk the cows. We reduced our herd numbers by more than 100 cows.

**The Hon. COURTNEY HOUSSOS:** How many do you have?

**Mr FORBES:** We milk about 800 cows. We made that decision in August or September so we could maintain the herd at the best value we could and meet all the standards. I am not sure whether it is just a branding thing. That is, if a supermarket aligns itself with farmers to use certain practices, they use it more as a branding tool rather than focus on the actual implications for animal welfare. That is quite concerning. Some of the processes put place may not have improved overall animal welfare, but it gives them a branding advantage to be able to sell their products and differentiates them for the consumer.

**The Hon. MARK PEARSON:** Mr Morgan, do you have anything to say?

**Mr MORGAN:** We in Australia lead the way in terms of pasture dairy cows. We look forward to continuing to develop that as effectively as we can. It is a competitive advantage compared to other countries. It is something that we as an industry body will continue to support our members in.

**The Hon. MARK PEARSON:** The evidence we have just heard from Mr Bale sounds extraordinary and it is a courageous and visionary thing they have done. They have gone about getting almost a direct contract with the retailer. Is that something that could be taken up more broadly in the dairy industry to overcome the situation where processors are not acting in good faith with the producer? Could it be made the norm rather than an exception?

**Mr FORBES:** In the United Kingdom the Tesco example over there has been operating for a number of years. There is a direct relationship between the farmers and the Tesco supermarket lines. They are able to come in and directly negotiate farm gate prices with Tesco. They collect all the information off all the farms of their financial performance and it is based off that. Certainly, there are examples throughout the world where farmers are dealing directly with the supermarkets in nearly a regulated-type arrangement that has worked out quite satisfactorily. In that arrangement, at times if there are peaks in the world price those Tesco farmers may be underneath it. But when there are collapses in the world price those farmers are quite strongly supported by that Tesco agreement and are able to cover the costs that are occurring directly on those farms at the time.

**The Hon. MARK PEARSON:** Has that been looked at here as being able to be implemented more broadly?

**Mr FORBES:** We have been quietly advocating that that was an option.

**Mr MORGAN:** I quote from the Woolworths website:

We have direct relationships with our Farmers and not via a processor or a Co-op to ensure they are getting a good deal every time. Our goal is to pay our Farmers a good price for their milk that allows them to continue to produce quality milk.

As an industry association, I assure you we will keep them to their word.

**The Hon. WES FANG:** Do you believe that that statement is accurate in 100 per cent of cases for Woolworths?

**Mr MORGAN:** I cannot speak on behalf of Woolworths. I am not a part of the Farmers Own brand. From the discussions that Mr Forbes and I have had with them, we believe that they have certainly provided a farm gate price that is sustainable.

**The Hon. WES FANG:** In the case of Farmers Own brand that may be the case, but do you think the relationship that they have with the farmers who provide their generic brand milk is as described in that statement?

**Mr MORGAN:** That is a different model. The generic brand of milk comes through processors and co-ops; not through Farmers Own. I believe Mr Forbes has discussed that previously.

**The Hon. WES FANG:** My point is that they have two separate relationships: One is what would appear to be a reasonable relationship with part of their branding milk—Farmers Own milk—and then a different relationship with the way that they interact with farmers who provide their generic milk, which is basically, "We get it from the processors and it just arrives."

**The Hon. MARK PEARSON:** So therefore that would be a misleading statement by Woolworths, would it not?

**The Hon. WES FANG:** It depends. That is what I am saying. When they say they that with their farmers—

**Mr MORGAN:** It is direct.

**The Hon. WES FANG:** —it applies only to a certain component not to their—

**The Hon. MARK PEARSON:** But they are saying in that statement that it applies across the board, so I am saying that it is misleading.

**Mr MORGAN:** I should be specific: That refers only to the Farmers Own brand and it is on their website only in relation to the Farmers Own brand, so it is not misleading in that sense. But there is certainly an imbalance between processors and producers, as is the tenet of our submission to this inquiry, to the ACCC and to the Senate inquiry before. That is the imbalance that needs to be rectified because at the current time the farm gate price—and I will keep saying this until I go blue in the face—is far too low and does not allow the dairy farmers to be able to pay their daily bills and ensure a future direction. As we said in the submission, this is not about the sustainability of the New South Wales dairy industry; it is about its survival.

**The Hon. COURTNEY HOUSSOS:** That quote from Woolworths' website implies that there is a level of public awareness that consumers want to buy something that is giving money back to farmers. They have seen an opportunity in the market to do that, but we need to come up with a way so that this is not just a single opportunity within Woolworths but something that is much broader for all of our dairy farmers—that they have this ability to negotiate their price, irrespective of whether they are talking to processors or whether they are talking to supermarkets directly. That is something we need to do.

**Mr MORGAN:** And that is the free market. That is the role of the free market within this country.

**The Hon. COURTNEY HOUSSOS:** But you would argue that the free market is not working in this case and that there is an imbalance in negotiating power between the farmers and processors and, subsequently, with retailers.

**Mr MORGAN:** Dairy Connect would say that there is room for improvement in terms of the relationship between the producer and the processor and, therefore, the processor and the retailer.

**The Hon. COURTNEY HOUSSOS:** I have a few more questions. The first is on the mandatory code of conduct. That is a Federal issue and that is something that needs to be addressed eventually. Do you have any suggestions about how we can move that along on the State level, apart from advocating through the Council of Australian Governments [COAG], for that to be accelerated?

**Mr MORGAN:** I believe that the Department of Primary Industries certainly has a role to play with its Minister Niall Blair in further discussions with the Federal Government. I think that the concept of the New South Wales dairy commissioner could certainly play an important role of liaison between the ACCC and the dairy

producers within the State. There needs to be continued dialogue between the State Government—both Opposition and Government—about ways in which we can find ways forward. I think that that is a slow process that is starting to occur.

The consultation that is going on at the current time by the Federal Department of Agriculture and the draft code that will come out sometime in December, if not early January, will be an opportunity for the Government to perhaps even consider making some comment—if it deems it appropriate to do so—in terms of the conditions that may be put into the draft code. The code is not a panacea. It is not going to provide a farm gate price immediately; indeed, it will not even set a farm gate price. But it will provide that transparency, balance and restoration of trust that since Murray Goulburn and Fonterra 2½ years ago has resulted in a complete breakdown of. We need to be able to find ways to move that forward and the New South Wales Government does have a role to play in terms of persuasion, not necessarily direct involvement.

**The Hon. COURTNEY HOUSSOS:** I want to talk again about the way that the New South Wales Government can invest in the dairy industry. One thing that we heard in a previous regional hearing was the need for more research and development in the industry and that the danger of a low farm gate price means that individuals do not necessarily have the ability to do that but that can be happening at a government level. Do you have any suggestions about how that could be done better or is it being done well at the moment? The example that we were given was that the University of Sydney used to have quite a significant faculty that looked at dairy production and that now there is one academic left there. Obviously with the decline of that at a public institution, is there a role for the Government to step in and drive it?

**Mr MORGAN:** I think there is always a role for the Government to increase its perception in terms of research, development and extension [RD&E]. The University of Sydney, through its Dairy Research Foundation, plays that sort of role. But the Government of New South Wales through Tocal, which is another organisation, is focusing slightly differently. Dairy Connect would always support any further investment that could come through the Government to be able to provide ways in which we are able to improve the technical or other aspects of a dairy farming enterprise. We believe that it is vitally important that occur. At the current time, Dairy Australia, through its arms in New South Wales—Dairy NSW, Subtropical and Murray—should be finding ways to continue that high-value investment both within the dairy industry itself but with individual farms and their engagement with Government, which is their role. They are not an advocacy group; that is us as Dairy Connect. It is more important that they continue to develop ways in which that RD&E can continue to grow.

**Mr FORBES:** I think there has been some concern with the amount of money that has been coming out of Dairy Australia into New South Wales. I think it has been diverted out of the Camden facility and into Gatton in Queensland. Some political decisions have been going on behind the scenes. I think New South Wales, as a State itself, has probably been disadvantaged that funds that were coming into New South Wales are now being diverted into other areas.

**The Hon. COURTNEY HOUSSOS:** Obviously we have unique challenges here in New South Wales that need to be addressed.

**Mr FORBES:** Correct. It is quite a different environment and markets. Quite a number of logistic issues make New South Wales quite unique.

**The Hon. COURTNEY HOUSSOS:** Mr Forbes, Mr Bale said that there were different contractors that came for Parmalat and different contractors that came to pick up the milk that was branded itself. Are any of the people who come and pick up the milk from your farm or from any of the farms that are around you generally subcontractors? Do you know if they are direct employees of Parmalat?

**Mr FORBES:** No, generally what has happened in recent years is that most of the processors subcontract a contractor so that when they turn up on the farm we do not really have any direct involvement with those companies. They are employed by the processor that we are supplying. There are very few, if any, now that provide their own transport. Saputo were in Victoria; I do not think they do in New South Wales.

**The Hon. COURTNEY HOUSSOS:** So when you say "provide their own transport", is it their subcontractors who undertake the work?

**Mr FORBES:** Yes, in most cases.

**The Hon. WES FANG:** We are now out of time. Mr Forbes and Mr Morgan, thank you very much for appearing today. You have not taken any questions on notice. We thank you for your time.

**Mr FORBES:** Thank you.

(The witnesses withdrew)



**(Short adjournment)**

**TREVOR MIDDLEBROOK**, Dairy Farmer, Gloucester, affirmed and examined

**The ACTING CHAIR:** I welcome our next witness. Thank you for coming, Mr Middlebrook. Please state your position.

**Mr MIDDLEBROOK:** I am a third-generation dairy farmer from the Gloucester area.

**The ACTING CHAIR:** Would you like to make a short opening statement before we go to questions?

**Mr MIDDLEBROOK:** Yes. I will not take up much of your time at all. I would much rather answer questions, of course. I have had a couple of decades of representing in the dairy industry, as I have described in my submission. I have seen a lot of things which have upset me and I no longer have a representative role. I have to be careful how I answer some questions and I will handle them accordingly. The position I come from, from my past position with Dairy Farmers Milk Co-operative is that we got the opportunity to work with the processor through our milk supply agreement and then have been able to see the dealings firsthand with the retailer back through the processor. Coming from a farmer representation base, we had a lot to do with milk policy and the whole structure around supplying milk into the fresh drinking milk market.

**The ACTING CHAIR:** Thank you. Can you tell us about the difference in your business between the farm gate price that you have been receiving and the your cost of production?

**Mr MIDDLEBROOK:** On our farm?

**The ACTING CHAIR:** Yes.

**Mr MIDDLEBROOK:** Like a lot of farmers who have made an investment into the future we are forced to carry a bit of debt; you are forced to to be profitable. So when you get pressure back onto your profit margins, that puts questions around the banking sector. What comes out of that, of course, is our inability to show any significant profit, so we just pull back on the costs. Our bottom line goes through, so what happens with our top line goes out through our bottom line and we are not able to grow or support our business from a financial obligation point of view, which has a detrimental effect, of course. And then you have refinancing and all that. You are working with your banker the whole time. You are trying to keep people employed. You are virtually running from one finance cost to another finance cost simply because the cash flow is not there.

**The ACTING CHAIR:** Who do you sell your milk to?

**Mr MIDDLEBROOK:** We have a contract with Dairy Farmers Milk Co-operative [DFMC], which has a milk supply agreement for the sale of Dairy Farmers into Kirin, so that gets processed by Lion.

**The ACTING CHAIR:** Do they operate as a cooperative in the true sense of the word?

**Mr MIDDLEBROOK:** The DFMC?

**The ACTING CHAIR:** Yes.

**Mr MIDDLEBROOK:** Yes, they are. I was part of the foundation of the DFMC where it was formulated to act as a supply co-op. That was when the business was put forward for potential listing, merger or sale. It was always designed around the capacity to have that farmer-owned cooperative. It is a 100 per cent farmer-owned cooperative but it does not own any stainless steel anymore, it does not do its own processing. That is all arrangement through its milk supply agreement, which was a very strong document in its day. But unfortunately the retail sector found ways to divide and sever.

In my time there with the milk price negotiation team, we were managing a billion litres of milk every year from Cairns to Adelaide, so we got to see all aspects of the dairy industry—different supply areas working with the policy in all regions—and then seeing the markets as well. Inside that arena we got to see exactly how the Australian dairy industry works and then connections to global entities as well.

**The ACTING CHAIR:** DFMC do not do their own processing?

**Mr MIDDLEBROOK:** Not anymore, no.

**The ACTING CHAIR:** Who does that? Do they do it on a contract basis?

**Mr MIDDLEBROOK:** Lion. Through the milk supply agreement it is all done through what is now the business called Lion—Lion Dairy and Drinks.

**The ACTING CHAIR:** Do DFMC contract Lion to do that or do they sell it?

**Mr MIDDLEBROOK:** No. What we do is we collect the milk and we have an authorisation from the Australian Competition and Consumer Commission [ACCC] to do back to back pricing. So whatever funds come into DFMC from Lion with the negotiations prior to the start of the financial year are passed directly back to the members. What keeps DFMC afloat is there is some capital withheld and there are the shareholdings within it. I think it is down to about seven million shares there at \$1 a share and also some retained assets. They perform their due diligence. They are making sure there is a healthy dividend that rolls out of that investment every year.

**The ACTING CHAIR:** Does DFMC contract directly with the major retailers?

**Mr MIDDLEBROOK:** No.

**The ACTING CHAIR:** They do it through Lion.

**Mr MIDDLEBROOK:** We cannot because of back-to-back pricing. We can and we have in the past around—I am not contradicting myself—a different structure. We cannot do anything around milk price because we would be in breach of our authorisation from the ACCC. When I say "we"—I keep on using "we"—I am no longer in it.

**The Hon. WES FANG:** With the increases that you are seeing in the cost of production—the cost of grain, hay and so on—do you have the ability to go back to your cooperative and say, "We've got these increases in price." And are they able to go to Lion and say, "We have to increase the farm gate price here. We need a higher price." Do you know if there is any mechanism to do that? If so, how does it operate?

**Mr MIDDLEBROOK:** Yes, and that is the purpose of the structure. It is purposely built around that. DFMC board of management have always operated well for the demands of the members. But at the end of the day there are only X amount of dollars in the tin coming out of the retail sector, and that is the cloud, the grey area that nobody is prepared to talk about. It is very awkward for anybody to talk about that.

To get back to the guts of your question, we always put up a case as a farmer, as a member that these are our costs. We have that built into the management of DFMC. There are people there who analyse, look at the costs and put it forward. Then that goes into the negotiations. There is also a structure within DFMC to go to arbitration—to go to the umpire, so to speak—but at the end of the day you are arguing the milk price. There is a lot of work that goes into the milk price. Myself, the chair and deputy chair were the milk price negotiators, and there are months of work that goes into that through a lot of spreadsheets and lot of work to come up with the proposed farm gate milk price. Unless you have about a 2 per cent margin in what is considered a competitive farm gate milk price, it is not even worthwhile going into the arena with the umpire because that is considered acceptable.

**The Hon. WES FANG:** Have you actively seen a return on the farm gate price with the current increase in costs?

**Mr MIDDLEBROOK:** Absolutely. We were virtually forced to trade at a loss. That is what is hard about it for all the farmers at the moment. You are almost forced to trade at a loss. Then you have to go back to your financiers. You see that big number in brackets and say, "This is why it is. Can you support me to get out the other side of this?"

**The Hon. WES FANG:** Can you give the inquiry a little bit of an idea about how that is being managed across the cooperative?

**Mr MIDDLEBROOK:** I do not have firsthand information on those proceedings because I have been out of that board position for a number of years now. But I do know that all the members within the DFMC supply are very forthcoming with their data. They make that available. When you go into the milk price negotiations—their milk policy structure—all that data goes into coming up with what would be considered an average price for a farm in that region, to go in and negotiate that milk price. There is a lot of work behind the scenes, as you would appreciate. You just do not go and say, "I want 56c and these are the reasons." There is a lot of data that goes in behind that to come up with that.

**The Hon. WES FANG:** Do you see the problem being more with the processors, or do you see it more with the retail sector where we have the rise of the \$1 a litre milk? Do you think that that is where the price pressure is coming in?

**Mr MIDDLEBROOK:** I am going to go as close as I can to saying what I know. The force of the market power from the retailer into the processor will not be disclosed. You will not get a single processor to stand up and say the nuts and bolts of the reasons why the milk price is the way that it is. If they do, they will be blacklisted on other products. They are forced to contract them when they do not want to. I do not really want to disclose that information.

**The Hon. WES FANG:** No, that is fine. Can you put it in more general terms, from your experience?

**Mr MIDDLEBROOK:** There is a contract that is agreed upon, out of our control, and that then comes back down to the negotiations from Treasury—out of whatever milk process area will be—and that will have to be negated through the entire milk supply. And it is done fair and equitably through that, but at the end of the day there is a capacity for processors and retailers to do a lot more.

I am slightly sympathetic towards some of the processors in how they have to operate under the market pressures. They are not game to step sideways and do anything other ways because they have massive amounts of revenue tied up within those retail chains. They are simply bullied and pushed by those dominant market pressures from the retailers.

**The Hon. COURTNEY HOUSSOS:** Mr Middlebrook, thanks for your time and thanks for your submission. I wanted to ask you some questions following on from what my colleague Mr Fang started talking about, that is, the need for transparency over the entire supply chain.

**Mr MIDDLEBROOK:** Absolutely.

**The Hon. COURTNEY HOUSSOS:** This is something that has come up consistently for us. I think you outlined it in your submission when you talked about how contractual clauses are "rained down" by the retailers.

**Mr MIDDLEBROOK:** Yes.

**The Hon. COURTNEY HOUSSOS:** The thing I liked was, "All the work is done by the processors and the farmers and yet the retailer receives the best return."

**Mr MIDDLEBROOK:** Yes.

**The Hon. COURTNEY HOUSSOS:** So you would agree when we say that there is a lack of transparency over the supply chain as a whole.

**Mr MIDDLEBROOK:** Yes. They actually do not get the benefit out of the milk. They only get the benefit out of all the other groceries in the shop because milk is put out there as a loss leader. What is it now? I think up to about 80 per cent of the market is the generic milk. So that is the sacrificial lamb for the whole food chain. There are other discount lines, of course, but nothing is completely discounted to the extent that milk is, to my knowledge. I would be happy to be proven wrong. But it is really an abuse of market power.

What is not talked about enough is this one national pricing structure that the retailers have. One in particular—I will not say any names—they disguise the complete costs because, as you know, it is illegal to sell something at a loss. At the end of the day, who is going to sit down and do the entire mechanism of the revenue that comes in from the product and what the fixed income security is from the processor and then what the return is? Plus you have to put your freight components and everything in there. You can get milk for \$1 in Darwin for goodness sake. The cost of getting it there would be over a dollar. There is this disguise all the way through it.

At the end of the day they are investigated. They go in front of the ACCC and they say, "It's great. The consumer gets a benefit out of it." Can I just mention, while I am on that, that the chairman, who I was serving with at the time, and myself had a special meeting with the ACCC. We put information on the table in front of them and they said, "How do we use this information, because it is all hearsay?" We said, "We don't know. We are just making this available for you." They said, "We can't use it because it is all hearsay." He said, "Exactly." That is the mechanism that goes in behind there with that retail sector. I know I have gone off on a tangent there a little bit, but it is the whole part of that mechanism going in there, with the volume and the pulling power.

**The Hon. COURTNEY HOUSSOS:** You might have heard this morning that I posed to one of the other witnesses the idea of a milk commissioner. Different commissioners or independent advocates have been raised by different submitters to the inquiry. The idea is that you have an independent person or organisation who sits back and meets with all of the different people across the supply chain, and says, "Is everyone being paid a fair price and are the prices being shared evenly?" Would you agree with something like that?

**Mr MIDDLEBROOK:** Absolutely. That is a form of regulation. The question is: do we go back to regulation? At the moment we have something which is going to put those checks and measures in place. A lot of people are doing a lot of work behind the scenes to pass, and we will get an opportunity to do something, which will be the management code of conduct, and going forward from there. Once again, is that a form of regulation? Possibly. Anything with any market control is a form of regulation but, at the end of the day you have this imbalance of market power, where you have a staple food that is getting devalued. It is not just milk. It is \$6 for a block of cheese, 60¢ a litre at the counter, for goodness sake, without any manufacturing costs on it. There is

this complete devaluation of this dairy food, which drags down the base price, which enables it to come back from any solid base.

You only have to look across at New Zealand. Their discounted milk over there for a two litre bottle is \$3.50, and they are the world's largest exporter of dairy, for goodness sake. If it is 75¢ a litre dearer than what it is here in Australia for their discounted milk and they are the world's biggest exporter, you have to start asking some questions. So there has just been this massive devaluation of food in general. So, yes, there needs to be transparency right through there and whatever form of management it is. I suppose you always have to be careful what you do. If you have some form of regulation that gives us the opportunity to have some sort of market power, that would be handy. That is not being greedy; it is just the case that the market needs to be the market, at the end of the day.

**The Hon. COURTNEY HOUSSOS:** I would argue that the market is not operating properly at the moment. It is clear from the submissions that we have received that there is an inequity in the market power. And that starts with farmers because their products are perishable. So they have a very limited time frame in which to negotiate. And there are others within the supply chain who clearly have more negotiating power. That is something that needs to be addressed by the Government, if it decides that it wants a dairy industry in the future.

**Mr MIDDLEBROOK:** Absolutely. It has been, and is still, a strong revenue raiser from a national basis for sure, and that has to be recognised. Look, we all get caught up in this perishable food product but it is a case of—when milk is balanced out in the region for what is needed for the market, for the processor, which for a high percentage of the time it is with New South Wales, and Queensland is always short, you have really just got a freight component to go back, to turn it into a more serviceable product when it comes back to longevity—be it a cheese, a butter or a powder or whichever. That is a devalued line, of course, but we really put a lot of emphasis on the fact "the product has to go tomorrow because"—and really it is pretty well balanced in requirements at the moment, the peaks of spring production and whatnot.

**The Hon. COURTNEY HOUSSOS:** I want to ask you about your interactions with the Australian Competition and Consumer Commission [ACCC]. Another witness to this inquiry has made the obvious point that the ACCC is predominantly there for consumers; not farmers. Coming back to my idea about a Milk Commissioner or independent advocate or whatever we are going to call them, there needs to be someone who is seeing it from a holistic perspective, rather than just the perspective of the consumer at the end. Would you agree that is where the interaction is somewhat limited?

**Mr MIDDLEBROOK:** It is, yes. There is a "but" in there. I have got to say that working with those people, the problems we had on the day there, there was two delegates and others from other capital cities on Skype. They were all very passionate people and very understanding people. They were wanting to know what they could do to help us fix the situation. I think their hands are tied around legislation, about what the ACCC can do and how it can manage. I was pretty well involved through the dollar milk war Senate inquiry. The only person who really came up with a practical, possible outcome there was Nick Xenophon, who actually said the ACCC needs the power—where you have got jockeys of power and big market power, they can actually look on both sides of the ins and outs of the particular market power in a retail sector like this, for example. But nothing really came of it. That was on the lawn at little Parliament House and nothing really came of it. There was a conversation around it but once again—we had a lot of momentum out of that and then, unfortunately, a couple of processors agreed to a 10-year contract on dollar milk and just blew all that hard work out of the water that myself and a lot of people have done.

**The ACTING CHAIR:** If the Committee was to recommend some sort of dairy advocate, whatever he or she might be called, what sort of powers should they have?

**Mr MIDDLEBROOK:** The power to actually have genuine data provided by all those entities involved in that food chain. I mean, genuine, hands-on, high-ball, genuine data because I tell you from what I know there is nothing genuine in there at all. It is absolute corruption.

**The ACTING CHAIR:** You say in your submission that Coles would take approximately \$200 million out of the Australian dairy industry each year.

**Mr MIDDLEBROOK:** That was a figure picked at the time. That is a wealth transfer, if I could add into that. There has really been a wealth transfer from these rural areas into virtually the investors of—this is a broad statement, of course—Wesfarmers who have—if I could use that phrase again—rained this agony down onto the dairy sector, through trying to grab market share out of Woolworths. You have just seen all this wealth go from all these rural communities into what would be investment portfolios in those businesses, just to grow and develop those businesses and try to pinch market share. It was just done—at the end of the day nobody asked. There was not a single cry from the public that the milk was too dear. It was already discounted. There was a

balance there of around about 70:30 of branded over generic. The shift went to 80:20 and it has not moved much since then. On balance, it dropped 30-odd cents a litre and nobody asked for it. They just did it. It was just a way of dragging people—they wanted the route trade, they broke the route trade to get it there. They pinched those dollars. Then, of course, it was about getting people into the shops for the dollar milk, for the discounted milk. The comment from Woolworths at the time at the Senate inquiry was they said it was not sustainable.

**The Hon. MARK PEARSON:** I have a question about the ACCC. When they were giving evidence before the Committee we were talking about whether it is time to broaden their power and the scope of what their instrument is, from not just misleading and deceptive conduct but to also look at unfair and improper conduct. They were referring to unconscionable conduct, which might have been talked about with the issue of Murray Goulburn. They still seemed rather vague. What would your view be if the ACCC were given extra muscle or broader powers to bring those factors into a prosecution or a deliberation, which to an extent would address the concerns that have been expressed all through this inquiry about the relationship between the retailer and the processor?

**Mr MIDDLEBROOK:** I will start off by saying something is better than nothing. It would be a fantastic position to have. I do believe, from what I know, that there is a culture within that retail sector in the way they abuse those market powers. Until that culture is changed, until there is a real significant law, there is a significant entity that can put those checks are measures in place, I think that culture is going to take a little bit of breaking. It is that bullying mentality, that forcing people to contract when they do not want to contract, all those disguised parts in those negotiations. I do not know whether that will flesh all that out, but I think it is a great start. So I would support it.

**The Hon. MARK PEARSON:** A few test cases, perhaps?

**Mr MIDDLEBROOK:** Absolutely.

**The Hon. MARK PEARSON:** Why do you think these retailers have decided that milk is to be the sacrificial lamb, rather than beef or pineapple?

**Mr MIDDLEBROOK:** Just as I mentioned a moment ago, there is this air around the fact that it has got to be used straight away. It does have to be used straight away, it has got to be treated in some way. It does not have the longevity of a lot of other products, of course. You have only got to go back to when they tried to put a discount on beer and I think Carlton said, "No, we are not supplying them." They just left them in their warehouses. We probably do not have that pleasure, unless it has gone and processed in another product where you can actually do that. So it is a staple, it is there for everybody. It is in the back of the shop. As we all know—and everyone knows in the regions—why does the cost of living go up but milk has not changed since 2011? Milk actually went down. It is just an indication that it was just simply put out there and abused.

The fixed income securities, those agreements with the retailer and the processor, what other arrangements that are in and around that, I don't know whether anybody will ever know, other than the people who were in the room at the time. I suppose that is negotiations at the end of the day, things are said and done. If there are not strong negotiations—I know through my involvement in negotiations around \$600 million worth of milk every year—there is a lot of argy-bargy that goes on in those rooms and you have got a know your data and your information when doing that. With a business like Lion, which has a revenue of \$2 billion out of the retailer every year, they rely on them for that. You know, they are sensitive in and around that. I think everybody wants transparency. I do not see the processors rolling in massive amounts of profits for their investments either. I think they probably do need a bit of a shakeup at the end of the day, everybody does.

My biased opinion is nobody's as tough as the dairy farmers themselves when at the end they come to the point where they cannot pay your bills, it is a sad state of affairs. When you see so many farmers leaving the industry, forced out of that, and it gets down to this desperate level, that is a real problem. So when you get a structure that is going to come along, especially if the ACCC has got more power in there to do something like that, I really support it for all of those reasons.

**The Hon. COURTNEY HOUSSOS:** What is your herd? I appreciate that you cannot milk all the cows all the time.

**Mr MIDDLEBROOK:** We run between 900 to 1,000 head and we milk around 400 to 450. But we have been severely drought affected so we have had to—as Mr Forbes' submission earlier was—reduce a lot of numbers as well. We have sold well over 100 head of milkers as well just to manage it, because feed costs are so high. And then, of course, that turnaround affects our ability to create revenue on the back end of that straight away.

**The Hon. COURTNEY HOUSSOS:** Have you sourced alternative sources of income during the drought?

**Mr MIDDLEBROOK:** No, it is just a case of going harder. You just have to go back to your financial institution and say, "How far are you going to back me on this? You have already lent me a ridiculous amount of money to develop my enterprise." It is all about being open and transparent. But that is where the openness and transparency seems to stop between us and the financiers, unfortunately. Hopefully you can run the business good enough through the agony. They know that we cannot pass our costs on.

**The Hon. COURTNEY HOUSSOS:** When I talk about costs, you are selling your milk, so that is obviously bringing some income in?

**Mr MIDDLEBROOK:** It does but it only props it up for a little while.

**The Hon. COURTNEY HOUSSOS:** How sustainable is it? If you were to continue exactly as is, assuming the drought does not break, how long do you think you could continue to operate? I am not looking for an exact date.

**Mr MIDDLEBROOK:** I do not want to say a date. But at the end of the day, we have run the ruler over ourselves and our own businesses. I have got two young children who are carrying on the farm and they are very passionate about. But we have to be seen doing that. We are a highly geared business. We are fortunate to have a large asset. But we are quite highly geared with our borrowings compared to our revenue capacity. Because of the water deficiency we have not been able to carry the stock. We prefer to match our debt revenue requirements.

**The Hon. COURTNEY HOUSSOS:** I note that in your submission you talked about wanting to hand the farm on to your children. Something that we heard from farmers from around the State and from a range of submissions is that without the financial incentive it is really hard to pass it on or to even just get interest from the next generation of farmers.

**Mr MIDDLEBROOK:** Yes, I would like to. My parents recently passed on and now I am the sole director of our family business. I would love to engage our children in that but all we can do is keep them in wages at the moment. And I can tell you that it is the minimum wage with a lot of fringe benefit. We are allowed to do that—we checked up on that. They are passionate about what they want to do and they want to keep doing it. But the answer is: how long is a piece of string? I have got to say, it is a very short piece of string and we are measuring it every day.

If this keeps up and we had to sell anything that would make our enterprise inefficient, we might as well get out completely. There goes 100 years of dairying and a lot of broken hearts. Through my representative roles I have seen a lot of people end up in very, very unfortunate positions. I am not in that mindset and I am not making those threats. But it is sad and I have seen a lot of my very good friends end up where they do not want to be in very broken families for generations to come. In the agricultural sector we are losing one farmer every four days to suicide. That is a sad state of affairs.

**The ACTING CHAIR:** There have been some tremendous efficiencies made in the way the industry operates over the last 20, 30 and 40 years.

**Mr MIDDLEBROOK:** Absolutely. I do not think that Australian dairy farmers can be any more efficient. We are rated as some of the most efficient in the world. Every time we make some sort of margin for ourselves, and because we are so transparent—it might be our Achilles heel—it goes off to the retail sector and they say, "There are the figures, here are the production figures; we are going to pay only this much for milk." I was speaking to someone a moment ago about a trans-Tasman leaders' forum that took place years ago in Melbourne. There was a delegate from Woolworths there who stood up and told the whole contingency, "We know the cost of production. This is much we are going to give you and there is nothing you can do about it." That was the arrogance. That was back in 2010 before the dollar milk. Have those days change? No. Someone who I was just speaking to who is right at the coalface of working with those people said that it is probably worse than ever.

**The ACTING CHAIR:** When you talk about your family history in the industry—and we heard a similar story from Graham Forbes this morning—and go back 30 or 40 years, there were little farm everywhere throughout the coastal areas. There must have been a tremendous shift when those dairies went out of business?

**Mr MIDDLEBROOK:** Absolutely.

**The ACTING CHAIR:** A lot of them would have been in the industry too.

**Mr MIDDLEBROOK:** They were self-employed.

**The ACTING CHAIR:** Where is it ultimately going to end?

**Mr MIDDLEBROOK:** Its ends when there is no industry. There will probably be two or three major processors. You have only got to look at the merger of the Perich family and Moxey family farms and the big expansion in the central west. That was backed by Chinese money as well. How much are they going to rely on the retail sector? I do not know the nuts and bolts of that well enough to be able to speak on it but they have gone to the south to try to drag up milk for that processing where it is traditionally cheap. It is a commodity supply region. A lot of those commodity processors have gone out and have quite a blend of domestic market products. But, unfortunately, those domestic market products, because of the squabble and trying to pull more revenue out of it, they are virtually forced to sell some of those products at such a discounted rate. It is pulling down the base the whole time of that whole milk product line. It goes through the whole system.

**The ACTING CHAIR:** We are out of time. I thank you very much for your submission and your forthrightness. Let us hope that we can see some positive changes coming into the industry as a result of this inquiry. Thank you.

**Mr MIDDLEBROOK:** I would just like to say in closing: how can all the farmers be wrong? Why is every farmer saying this? There are a couple of retailers that are forcing us into this agony. Why is every farmer wrong?

**The ACTING CHAIR:** We have heard that message loud and clear.

**Mr MIDDLEBROOK:** I will keep on saying it. Thank you for your time.

**The ACTING CHAIR:** Thank you.

**(The witness withdrew)**



**GRAHAM BIRD**, Dairy Farmer, Hannam Vale, affirmed and examined

**DEBRA POLSON**, Dairy Farmer, Oxley Island, sworn and examined

**JACQUI WOOLNOUGH**, Dairy Farmer, Dyers Crossing, sworn and examined

**JOEL DORRIES**, Dairy Farmer, The Bight, affirmed and examined

**JOHN POLLEY**, Dairy Farmer, Kimbriki, affirmed and examined

**NARELLE POLLEY**, Kimbriki, affirmed and examined

**The ACTING CHAIR:** Would anyone like to make an opening statement?

**Ms WOOLNOUGH:** To the Chair and the Committee I say thank you for this opportunity. I am a fifth generation dairy farmer on the same land at Dyers Crossing. We are here today to explain to you just why the current New South Wales dairy industry is not sustainable at the present time and has not been for a very long time. Our submission is just a snippet of the last few years of this impossible situation that dairy farmers have been put in by the processor. Put simply, we just need a realistic, fair price for our milk to be paid by the processor and for the processor to pass their costs up the chain on to the retailer for them to decide whether or not they bear the costs or pass them on to the consumer.

An issue that we, the dairy farmers, find difficult to understand is why we must—and I say must—sell exclusively to one processor; however, that same exclusive milk of ours can then be sold to one, two or three or however many other processors to make their businesses more profitable while the dairy farmer has to remain exclusive and go broke. There is no transparency as to where our milk ends up and what it is sold for, whether it is dollar a litre milk, cheese, or whatever. By the processor freight is always factored into the farm gate price instead of passing it up the chain to the supermarkets. Dairy farmers may pay freight on many things they purchase such as fuel, feed, fertiliser, even vet visits and so on, but we are left to incur these costs. By the processor power also is factored into our farm gate price. The dairy farmer already has his bill to pay, so again processors need to pass it up the chain. Contracts are signed by both the farmer and the processor in good faith; however, that can be changed in an email—even though the farmer has done a business plan on the signed contract time frame—with no negotiation.

Future generations—confidence has dropped out the dairy industry to encourage our youth to enter an industry that is not profitable. Milk quality testing should be done through an independent organisation like Safe Foods to allow dairy farmers confidence. Food security is one that I think the Government has to play a part in. For food security for New South Wales and Australia, we cannot allow the New South Wales dairy industry to die. Everyone here in this room is aware of Australia's climatic conditions, whether it is fire, flood, drought. You cannot rely on one State or area to provide all the milk and we do not want to import a product of lesser quality for Australian people. Once farms are subdivided and sold they are gone forever. Job security—dairy farmers in the past have kept rural communities alive by their financial support of the businesses that make up these small communities. Small communities are what makes up our State. Then our States is what makes up our whole country.

Health and safety—dairy farmers are tired, worn out, burnt out. They have tried for so long to be better at what they do. Unfortunately, our equipment is old and tired also. This is a recipe for accidents to happen. A dairy farmer will put his animals' health first before his own. He will spend the money on the animal and not on his own health. Now mental health has become a real issue for all of us. We are a very resilient bunch but enough is enough. We have had to struggle for way too long and I am afraid droughts and floods are easier than processors to deal with. Low farm gate price is killing our industry.

**The ACTING CHAIR:** Thank you. Would anyone else like to say a few words before we start with the questions?

**Mr BIRD:** I am a relatively new dairy farmer, although I come from a family of dairy farmers. There was sort of a break in the cycle, so to speak. I have only been dairy farming for 2½ years. I went through what Jacqui Woolnough just talked about where farms have been broken up. I bought a farm and then I had to buy the next door neighbour's farm as well to make it viable in an area where there is a lot of people who move from the cities predominantly for lifestyle reasons. Agricultural land is hard to obtain these days. We supply Parmalat, as do all of us here. I was very grateful that Parmalat offered a contract to me and my wife because I come from an office background. I worked in an office for 40 years. For them to offer me a contract when basically they could have easily said that I did not have the experience or whatever, I was very grateful.

However, having said that, it was a real eye opener when I started to realise how they are not really contracts, they are one way. It is a master-servant relationship, the way I see it. We are forced to sign a contract, virtually. We do not have any say in that contract. If we want to get out of that contract because there may be better opportunities it is very difficult. Parmalat will state to us and have stated publicly at some of our meetings, "That won't happen. It's not possible. You're in a contract. You've signed a contract."

We have not got the legal might or whatever you want to call it to go and take on a worldwide company like Parmalat. We are just the little guys. We just have to sort of take it. I did speak to one other processor. The person I spoke to from that processor did say to me that they would be keen to have us supply them with milk but we would have to see out our existing contract. They did not want to upset Parmalat because—and I think this has been alluded to—it appears that some of the processors are not so much in bed together, that is probably a bit too harsh, but because they do trade milk they want to be able to keep that milk trade going. They do not want to upset each other by having someone leave their contract to go to another contract.

I concur with what Jacqui Woolnough is saying. We have found it incredibly difficult financially. We have sunk a lot of money into it and we are still sinking a lot of money into it. But I am sort of a glass half-full person. I am always optimistic and like to be positive. I would like to think that there is a way through this and that there is a future. I think dairy farmers are incredibly hardworking people. I have been surprised also by how clever they are. I came from a place where dairy farmers are considered not real smart, but I can assure you they are very, very smart people. To run a dairy farm is not an easy thing. They work incredibly long hours: like an easy week for me might be 50 to 60 hours; other weeks might be 70 to 80 hours. That, I am sure, is very common for all dairy farmers. My wife works three days a week off-farm. She also works probably 20 to 30 hours a week on the farm. You do put a lot of energy into a dairy farm for small financial reward. There are other rewards, but the financial rewards are very, very small at the moment.

**The ACTING CHAIR:** Thank you. Does anyone else want to say anything before we ask questions?

**Mr POLLEY:** I would like to say few things. I have been in it all my life, since I left high school at 16. I have been there for 50-plus years now. Our two older boys started in the industry. We bought the second farm to be more viable to allow for the other boys to come in but, since deregulation in 2000, the first boy stepped out and he has gone into banking because he could not see a future in dairying; it is fading. Further down the track, the eldest son has gone into another job in the disabled children industry, because we have two disabled boys as well. He got to the point where he had to get out; it is too late once you stay too long. He has settled into the industry okay.

We have a trainee at the moment. If you look at the way the industry is going, there is no confidence in the industry the way it is with the prices. For this young trainee to train, we are showing him everything we know, but at the end of the day, if he has no family history, it even makes it harder to get into the industry with the dollars involved to get into the industry. We are teaching him, but it is going to be hard for him to make inroads into the industry.

All this going to collective bargaining, for example—Tim Bale mentioned that he started the group and got it all legalised by the ACCC and that sort of thing. It went okay for a while, but it has got worse and worse as we have gone on. They do not seem to be agreeable to have a meeting with us, as if we are not big enough. We are at the end of the road as far as negotiating goes. If it keeps on going like it is, I cannot see a future. If you look at the figures, we have gone from 800 to 660 farmers, and we have dropped that margin from 2011 till now. Where are we going? We dropped nearly 20 per cent in that time. Everybody is in the same boat; there is just going to be no industry left. The industry is going to fade completely. It will be overseas milk, reconstituted milk or something like that that is going to keep the industry going, because it is hopeless the way it is.

We cannot hang on much longer. The mandatory code is on the agenda, but I cannot see that happening quick enough to help farmers survive. It is really desperate. Our disabled boys work in the industry with us, doing their other jobs in town as well. They are great boys. They are 27 now, young men. As they have grown up through the years, they have done it all their lives. They have trades and are inspirational farmers; we went to Victoria for a special do. But at the end of the day, it is all going to come to an end. It is just not right. We have the schools coming and we teach the children how to milk. They send us letters of appreciation, but it just will not be there for them. I do not know how it is going to end, but I get sentimental about it all. At the end of the day, we have to be strong and keep going. Like Jacqui said, we think of the cattle before ourselves.

**The ACTING CHAIR:** Thank you. Anybody else?

**Ms POLSON:** A lot of the submissions have been about the macro, the big picture, and we agree with all those people. We thought in our submission we would focus on the reality of what has been happening over the last couple of years. We always thought we had a good relationship with processors back from the co-op days;

now we have learned from other people to ask some questions. We have been asking questions, but unfortunately the mechanisms are not fair and open. We have been hitting brick walls, but the points that we raise are fair and legitimate. If there was some type of arbitration system then our voices might be heard. We get on really good with the field services—they are empathetic—but we realise we need to talk to people at the top. Unfortunately, they have not been listening to us. We would welcome your questions, so that you can understand the nitty-gritty of how these discussions have been going.

**The ACTING CHAIR:** Thank you. Mr Dorries, would you like to make a comment?

**Mr DORRIES:** I will just say, call it negotiating, but I do not see much negotiation, it is what it is in front of us, and we can either take it or leave it. That is how it is.

**The ACTING CHAIR:** Mr Bird, as a relative newcomer to the industry, what attracted you into the industry, given the problems that it is facing? Why did you not simply start up a beef farm instead of a dairy farm?

**Mr BIRD:** I did have beef; it is probably easier, but at that time there was not much money in beef either. I come from a background where, both on my mother's side and my father's side, they were in dairy farms. Even though I moved to Sydney as a boy from a dairy farm, I always loved coming back and visiting farms. I used to stay at my uncle and auntie's farm during school holidays. Whenever I got the opportunity to visit or stay on a dairy farm, I did. Even when I was working, I would have a suit on and be driving somewhere to a meeting and going past my cousin's farm, or something, and I knew it was milking time, I would drop in even if it was only for five minutes just to say hello and ask about the cows.

**The ACTING CHAIR:** It is in your blood.

**Mr BIRD:** Yes. I have always wanted to do it and the opportunity arose. My wife was a bit nervous at first, but she said, "You've always wanted to do it; let's just do it. If we go broke, we go broke and it is not the end of the world." I have confidence in my ability and my wife's ability as well. We believe we are good managers and we are hard-working. We look at ways of earning the most money possible out of the small farm we have by looking at ways of being very efficient. They are some of the reasons we got into it. Some people called us mad, some called us brave.

**The ACTING CHAIR:** That applies to all farmers, I think.

**Mr BIRD:** Yes. We went ahead and did it, and I do not regret it. However, financially it has been an incredible struggle.

**The ACTING CHAIR:** Mr Dorries, as a younger person—I wish I were your age again—

**Ms WOOLNOUGH:** So do we!

**The ACTING CHAIR:** What do you see as the future? Was your family in dairying or did you get into it by your own volition? What is your story?

**Mr DORRIES:** I am only new to the industry. I have been on my own farm about a year and a half now. I have been in the industry since I was 15, and I am 30 now. I looked around to go share farming, but there are not too many opportunities to get into the industry. I had a good job, but I wanted my own farm doing the exact same thing I was doing for them, just now it is for myself. The opportunity came up with me parents. They said, do I want to go in partnership with them? I said yes, definitely because I could see that as a way in. There is dairying on my dad's side and me uncle still farms. They are in Queensland and I did not see myself moving up there. I thought it would be a lot tougher than the coastal region, which is the best area for dairy at present.

**The ACTING CHAIR:** What do you see as the future for the industry? By the time you are my age, what do you think will be happening with the industry?

**Mr DORRIES:** I cannot say. No-one has a crystal ball, but I do not want to be sitting here like this today. I do not want to be their age. When we go to meetings with the supplier—they are fighting for a better price. I do not want to still be doing that when I am their age.

**The ACTING CHAIR:** That is a good answer. This question is to anybody who wants to answer, so if you want to contribute please feel free to do so and that applies to all questions from here on. When your negotiations with Parmalat first started, were you confident it would lead to a better outcome than what I am hearing you are telling us now?

**Ms POLLEY:** Definitely.

**Ms WOOLNOUGH:** Yes, in the beginning when we first started with Parmalat, I felt it was very positive. It was a different group of people at the top and they would listen. With the help of the Taree Collective

Bargaining Group, it made all the difference. There did seem to be negotiation. We would say what we wanted and they would say no or they would come to the table. To put it quite frank, they just do not come now. You write a request, please come. I have actually spoken at a meeting and stood up to the representative and asked, "Could you please have somebody that has the power to talk about price to come to the meeting? We are willing, at any time. Please get somebody to come." They just say, "We will get back to you." Basically, there is no meeting with them.

**The ACTING CHAIR:** When that first started, did the price they offered you subsequently come back to the initial price they offered you?

**Ms POLSON:** When we first started, you would get a price. You would sign a contract for three years and you would get a royalty payment and that price would be for that amount of time, so you could budget, et cetera. What happened then, due to the influence of a number of events, they changed to what they call a contract for one, two or three years, but it is only a 12-month price. Now, instead of every three years, they would come early. You could have a discussion because obviously it takes some time. For every six months we get another forecast, so they are asking us to sign for 1¢ for three years on a price for 12 months. We have written letters and said we do not think that is even a contract when you are asking for loyalty for three years on a 12-month price. And the price that they are paying us is based on what they call a New South Wales competitive price. What is that? It is not related to anything. Obviously for them, New South Wales competitive pricing—

**The ACTING CHAIR:** It is about the retail, not the production.

**Ms POLSON:** It is lowering it as well. In our area, we have always thought we were in a good position. We are halfway between Sydney and Brisbane. Depending on what happens in terms of climate, we always thought the Manning Valley was a good opportunity for processors. But what has happened is all our milk is going north and they are paying us a proximity value based on Sydney. We do not get any proximity bonus for Sydney and now because our milk is going north that is saving them at least 5¢ a litre and they are not willing to negotiate our proximity bonus to Brisbane.

**Mr BIRD:** We believe that the Queensland suppliers and some of the suppliers in the Tamworth region are getting 5¢ a litre more than us. We cannot prove that, but that is our understanding. We are supplying milk to the same factory and getting 5¢ a litre less. That is our understanding. What we were asking for, basically, was that 5¢ a litre.

**The ACTING CHAIR:** When the \$1 milk came in, did your price go down?

**Mr POLLEY:** In 2011 it was. I think it had a bearing on the price and that set a benchmark for now. Like previous speakers have said, I feel it has a big influence on the pricing because the proof is in the pudding, really. It is the way it has gone. I do not think we have gained anything at all by it.

**Ms POLLEY:** I think devaluing our product—look at Coke, look at water. Look at all those things and how much a litre they are compared with milk.

**Ms POLSON:** There has been a price reduction. I could go back to my figures and have a look at it. We are trying to focus on the future, so our all energy is—I mean, we can go back and look. There has been price reductions. I cannot give you a figure—I could, but the point is it does not help you. What I am trying to do is—

**The Hon. WES FANG:** Move forward.

**Ms POLSON:** —focus my energy on negotiating with those people. There has been a price reduction because there is basically Coles and Woolworths and they each have a processor—Saputo or Parmalat. So the pressure then goes down. There is price-matching at the supermarket level then there is price-matching at the processor level. No-one can break that hold. To be perfectly honest, the \$1 milk—the generic milk, the supermarket milk—is where the sales are. The smaller brands which are a great niche market are wonderful, but they will not sustain the dairy industry. As we say, we need to value that whole fresh milk product, which we produce every day. But because we have those big players at both the processor level and the supermarket level, there is no way to break those duopolies.

**The ACTING CHAIR:** In an ideal world, do you think there should be a minimum retail price and that should cascade down to the producer?

**Ms POLSON:** Yes. Re-reading the ACCC this morning to see what they have done, because obviously they had access to more data, we have a retail price of \$1.50 and then we have a milk price of 60¢. It is great, and then for people who have different categories of their milk in terms of composition or other variations so that there is variety and the consumer is getting their different components, that is great, but there needs to be 60¢ and \$1.50. The point that it has come to now is that we are going to lose money for the next 12 months and we have no ability

to pay that back because we have no farm deposits; they have deteriorated. There has been an increase in grain of \$200,000 for a year. Where can you get that money? You have to sell something.

**The Hon. WES FANG:** You have raised the 60¢ and \$1.50 issue. Would you be generating a profit at 60¢ or would you be breaking even in the current climate, given the grain and hay price?

**Ms POLSON:** In the current climate, I think we would just be breaking even. Does anyone want to say more on that?

**Mr BIRD:** It is hard for me to say. I have not sat down and done detailed figures on that. I am good at figures but I have other things to do.

**The Hon. WES FANG:** It is finding the time to do it. We are trying to establish where things are in the market at the moment. A lot of the testimony is that people are going backwards because of the high grain and hay prices. I want to explore your group some more. This morning we heard from Mr Bale and how the Taree Collective Bargaining Group operates with Woolworths and their own brand. Is there a subcommittee that negotiates en masse with Parmalat, or do you negotiate en masse and have individual contracts?

**Mr BIRD:** We have not got to first base, to be quite honest. They are not even recognising that the Taree Collective Bargaining Group is a bargaining group. One of the responses we got from Parmalat was that they would only speak to the whole of New South Wales, not just the Taree Collective Bargaining Group. The whole of New South Wales is in different circumstances. Their issues are different to what our issues are. We still believe that we have a right to be able to at least speak to them. There have been a number of emails, letters, going backwards and forwards, but it just drags on and on and no way have they ever given an inch in saying that they will actually speak to us.

**The Hon. WES FANG:** The ACCC has recognised the Taree Collective Bargaining Group. Have they recognised your group as a sub-group?

**Ms POLLEY:** Not that we know of.

**Ms POLSON:** We just call ourselves a sub-committee, so we are—

**Mr BIRD:** Parmalat suppliers.

**Ms POLSON:** We are Parmalat suppliers of the Taree Collective Bargaining Group. As Mr Bale said, there are about probably six different suppliers. Basically everyone who is a dairy farmer in this area belongs to the collective bargaining group. So you have got Seputo suppliers, you have got Parmalat suppliers, you have got Norco suppliers, Real Dairies and the Manning Fresh group. Because over time people have found other opportunities. But the entity is the Taree Collective Bargaining Group. First of all, we got Mr Bale to write a letter as the chair, and they did not want to speak to him. So then we wrote it as the sub-committee, on behalf of Parmalat suppliers of the collective bargaining group.

**The Hon. WES FANG:** Parmalat is not acknowledging that the sub-committee exists. They are not willing to meet you as a collective group.

**Mr BIRD:** That is correct.

**Ms POLLEY:** We cannot get answers out of them as being suppliers either.

**The Hon. WES FANG:** You are all currently contracted to Parmalat?

**Ms POLLEY:** Yes.

**Mr POLLEY:** Yes.

**Ms WOOLNOUGH:** Yes.

**The Hon. WES FANG:** It is a three-year contract but you are only given a price for the first 12 months—

**Ms POLSON:** Six months.

**The Hon. WES FANG:** Then you are given updates along the way. Have you seen reductions in the price that they have offered you?

**Ms POLLEY:** We have a no guaranteed minimum price, for a start. We cannot change processors without giving notice, but nobody will take us because they are all in together, so we have got nowhere to go. So you have to accept that lower price, which when you get to our age—

**The ACTING CHAIR:** So there is no competition in the system at all, is that what you are saying?

**Ms POLLEY:** No, not really no. Basically, we sit down and it seems like we are just the little ones, that you do as you are told. And we are told if we cannot make money, get out. If we get out, we have got that much debt. We have to sell our family farm that has been here for hundreds of years to be able to survive to pay that debt back.

**Mr BIRD:** Another important point is that there was a change to the contract in the last six months where they changed the way that basically the bugs in your milk are measured and how you are paid on that. So they brought in a new system. I know that some farmers believed that they were getting less money through that system. Another issue for us is that they did say that they have got an incentive program, I am not sure that was the word they used, for farmers who were making infrastructure investments, such as investing in irrigation or more efficient feed systems and so on. We have inquired about what do you have to do to qualify, to access it and to get more money—not that anyone here has got any money to expand their dairy. But anyway, we wanted to know what the situation was. Then the response to that was that they would only speak to individual farmers, that they would not publicise—one of the furphys was that it was because it was a bit sensitive because of the drought situation and the hard times that dairy farmers were having.

**The Hon. WES FANG:** Are your contract dates all aligned? Will you all end at the same time?

**Ms WOOLNOUGH:** No.

**Ms POLSON:** No. You can take a one-year contract, a two-year contract or a three-year contract.

**The ACTING CHAIR:** Do you sign a confidentiality agreement with them when you sign a contract?

**Ms POLSON:** Look, I do not know.

**Ms POLLEY:** You just sign.

**Ms POLSON:** I have had a look back at them and I cannot really see anything specific, but there could probably be something in the fine print.

**The ACTING CHAIR:** What I am getting at, do you talk amongst yourselves about the price they are paying you as individuals? Or are you not allowed to say that?

**Ms POLLEY:** We do when we get the time.

**Ms WOOLNOUGH:** In amongst ourselves, our group is probably all paid the same, but we do not know what happens with other Parmalat groups.

**The Hon. MARK PEARSON:** Ms Woolnough, you said that a contract can be changed by an email.

**Ms WOOLNOUGH:** That is how we are notified. For us we would like a meeting where we get to see somebody. You just receive an email saying, "this is what is going to be happening". That is rather difficult.

**The Hon. MARK PEARSON:** Can you give us an example of where a contract is changed by just an email?

**Ms WOOLNOUGH:** When I say contract, our pricing is changed. So therefore you have signed on the dotted line saying these particular months, this is what the price will be, and you say okay. You go to your bank and say "This is my business; that is what I am going to do." Shall I buy more cows? Shall I put some in calf now? Because a cow takes nine months to have a calf. Therefore, where will that leave me? All those sorts of decisions. You do that and then any of these contracts can be altered. That is why through the mandatory code we are hoping to create things, that there is transparency. But we create a contract that is not changeable. A farmer desperately needs 12 months of knowing what my pay is going to be.

**The Hon. MARK PEARSON:** Certainty.

**Ms WOOLNOUGH:** We do not want to know that "for the next six months we have decided that because of world market"—even though our milk goes to the fresh milk market—"it is all going to drop." We just find that ludicrous. Trying to explain to a bank manager these situations is not easy.

**The Hon. MARK PEARSON:** So the processor has some room to move to change that aspect of the contract whereas you do not?

**Ms WOOLNOUGH:** At the moment, if you have a look at what they are proposing for the mandatory code, it will be written there that a farmer should deal with good faith when doing the contracts and that there is the opportunity for change in the contract with the processor due to other things that happen within the industry, whether it be worldwide or whatever. I just wonder what would it be like if we wrote in there the exact same thing from our point of view and said, "In six months I will send out an email to you saying our price must go up due

to the drought with the cost of feed, fertiliser and fuel." I do not think they would see it quite the same if all of our group or all dairy farmers put everything in reverse.

I ask you to have a look at the mandatory code that they are proposing. It is looking very one way again. I could just about write in red the complete opposite but put a dairy farmer's perspective in there and say, "And how would you agree to that?" I do not think many of the processors would. However, I am not sure that the processor is to blame but there is no transparency for me to say. So I keep saying the only one that pays me is a processor. I am asking the processor to pay me more and I want him to push it up the other way. So whatever cost he is bearing, he must push it the other way. He cannot say, "I have got a power bill to run these big processing plants. It is a huge cost. It is costing us a bomb. Where can I send that?" He needs to send it up to the supermarket end. He cannot push it down because we are already paying as much as we can for our power. For whatever it is, we are all paying those things. It has to go up; there is no more room for it to come down.

Mr Dorries said that we are very efficient. We have proved our efficiency time and time again. Seven days a week, 24/7, on call, has taken its toll. For a resilient bunch, as I said we are, we have coped with many droughts, floods, fires. Whatever is put in our way we can cope with, but with the pricing we cannot beat it. So please hear us. There is nothing else we can do. The only thing is, as Mr Polley and Ms Polley have said, if we cannot afford to pay, and as Mr Middlebrook said earlier, with your family—I have six children, three grandchildren—it has been in my family for all those years; we do not want to let our land go. It is very precious to us. It is more than just a job. It is our home; it is our everything. It is our past; it is our future. We really need you to hear that the only way for us to get out—because we have incurred so much debt from drought and from such a low price and saying, "we can cope, we can cope; it will change, it will change, it will change"—will probably be to subdivide the land. And then it has gone, and it will be gone forever; there is no turning back.

**Mr BIRD:** On that subdivision point, land on the road I am on, we are the only viable farmland. Some would say we are probably not viable anyway. We are the only farm left on that road, and it used to be that every property was a farm. All the places around us have all been subdivided into smaller lots. Real estate wise it is probably going to appreciate quite well, but that is not we are about. That is not what we want, just to sell up and take the money. It is more about creating something where you are helping an industry stay alive. As people have said, we are giving other people work. We are providing work in our local area and keeping the local businesses churning over. Even a small farm is quite an incredible investment. Some of the bigger farms, we are talking a lot of money.

**The Hon. COURTNEY HOUSSOS:** I thank you all for your time and compelling testimonies. Did you have a choice to stay with Parmalat? What were the other options you had? Did you have the option of going into Woolworths' own brand? Why could you not go into that?

**Ms POLLEY:** Basically they only want a certain amount with Woolies. And they are probably the only ones that are making any money. It is not just Parmalat, it is all the other processors because they are all working together. Woolworths is separate from that group. So they are not bargaining against all the processors. All the processors seem to be working together, which is giving us no power whatsoever.

**The Hon. COURTNEY HOUSSOS:** If you are with Parmalat or any one else, it does not really matter because no-one is paying you anything?

**Ms POLLEY:** Not really. Parmalat is probably the hardest one to deal with at the moment. As I said, we have got no other—I think it is just since all the overseas companies took over all the processors it has deteriorated since then because the overseas countries do not really care about Australian farmers. I think they are probably trying—I think Parmalat is, it seems to us—to push out the small farmers. But you talk to big farmers—you spoke to a couple of big ones today—they are struggling as well as the small farmers.

**The Hon. COURTNEY HOUSSOS:** When you say you are a small farmer, how many do you have?

**Ms POLLEY:** We have got two farms going because our eldest son was on one until he had a breakdown. Now John at 67 is working seven days a week running two farms. We have just got to work out where we can go. We cannot afford to employ any other people. We milk about 67 at each farm. That would be about right? I know; I do the bookwork, he does the farm work.

**The Hon. COURTNEY HOUSSOS:** A very important part.

**Mr POLLEY:** I will add to what Narelle said about processors. As I believe, the processors can share the milk amongst each other which makes it very hard for competition too because, say, they have got too much milk, they will onsell it to another processor and vice versa, the other way. It makes it very hard for competition in that sense. The other one too, what Graham said a while ago, as far as getting help with low interest loans and infrastructure and that sort of thing, it is all a little help. But at the end of the day, if the price per litre is not viable,

what is the sense of having the loan or the other? It is just like having a house and having no people in it. You can rent it out—the same sort of thing.

**The Hon. COURTNEY HOUSSOS:** It is the stopper at the end of the whole process, is it not? You can try and fiddle along the middle but the stopper at the end is that there is not a fair retail price?

**Mr POLLEY:** No.

**Ms WOOLNOUGH:** We have tweaked the system every which way we can. We have tightened our belts. We have done every single thing that we could possibly think of. We have worked harder, longer. We have thought of everything, but I am stuffed as to what else there is other than we just need to lift the price all the way up.

**The Hon. COURTNEY HOUSSOS:** Does anyone else want to talk about why they are with Parmalat?

**Ms POLSON:** We have a Saputo farm and a Parmalat farm because we thought we would spread the risk but it has not really done that. What happens is that Saputo is on a financial year contract. So they are on a 12-months, and that will finish in June. Parmalat is on a calendar year and its contract finishes in December. It is not like you can say, "Let's get a quote from you and let's get a quote from the other" because one is a financial year and the other is a calendar year and they finish at different times. You cannot easily switch between the processors in that regard. Both of them have a clause in their contract that they will match the largest competitor in the region, which is the other one. So they both have the same clause, or virtually word for word the same clause, in their contracts.

**The ACTING CHAIR:** Do you receive the same price from Saputo and Parmalat?

**Ms POLSON:** Saputo started with a low price and has had a step up. So currently the same based on my figures from my farm.

**Mr BIRD:** But they usually have different payments systems.

**The ACTING CHAIR:** So they look different.

**Mr BIRD:** Sometimes it is difficult to compare, yes.

**Ms POLSON:** It is difficult to compare because you just take the stated price because the pricing is so different between them and with the other processors as well. So you need a price system, but then the price system you get is based on the best for everything. In reality, you probably do not end up with that all the time.

**The Hon. COURTNEY HOUSSOS:** Are you saying there are all these breakdowns in what should be a perfect market? If we were to say in a perfect market and the ability for farmers to negotiate a fair price from processors, you have a limited ability to shop around with processors?

**Ms POLSON:** The thing at the moment is our milk is going to Queensland. If you are from Telegraph Point or if you are in Tamworth you are getting a northern milk zone price. Our milk is going there. It has gone there for the past two years and it will go for the next two or three years but we are not paid on that price. One company trades it to another company; another company has processors in New South Wales and Victoria. There is money to be made in milk swaps and milk trades—

**Mr BIRD:** At our expense.

**Ms POLSON:** At our expense. Obviously this is a time when we should be getting a price rise. There is a drought in Queensland. There is shortage of price. As you have heard everyone who has spoken has reduced their cow size but its spring so there is a flush. Okay? You have got to understand how the milk thing works. It is the time because of those factors that it is right for us to negotiate. The time is right for us to bargain for that price but unfortunately it is the relationships between the supermarkets—I do not know if they are friendly to each other—to look at the prices there and the processors know exactly. They have these wonderful spreadsheets. They know exactly everything like that. While Graham has the capacity to do that—but probably not as spreadsheet savvy—we can do the numbers but it will make no difference because we do not have the power.

**The Hon. WES FANG:** Effectively you are forced to the price takers as opposed to price negotiators?

**Ms WOOLNOUGH:** Yes, you have hit it on the head.

**Ms POLSON:** It is nearly December so the window of opportunity to negotiate is very small because each six months with Parmalat you get a price. Can you have a massive negotiation and collective bargaining every six months? No way, when you are struggling with drought, when you are working very diligently. You are running around being the safety officer, which is my job. I am not necessarily doing it in a great way but I am really on their back. Our negotiation has been by email, which as you said is not very efficient. We wanted a face-



to-face meeting with a supplier in the room, and also Woolworths. There are so many people saying, "We can't pass on that price because it affects all the other lines we sell." As you know, milk is one. The other person says in their press release—they are very savvy at press releases—"We're giving the farmers some money in terms of the drought levy." It is a big PR campaign.

What has happened to the dairy farmers is that our power as has dissipated. We have Dairy Connect, we have the NSW Farmers Association and we have collective bargaining groups. Everyone is obviously looking for a sustainable price because, as other suppliers have said, it is an industry. If you have one farm that is wonderful, it still needs the others around because we need the other things to make it suitable for other people in the economy. We need the people to be able to have the local produce stores and local servicing. We are a community, but that is the crux of the matter.

Basically there are two large retailers and two processors who supply them. We are very diverse and we have a perishable product. It is very difficult for us. Suddenly we have decided we are not very happy with that. We have not been very happy for a long time and we welcome the opportunity to explain the situation do you. The people before you are very politically alert and they are very aware. They have followed the process over time. We want to focus on the situation we are facing. I am not quite sure if they are looking at the long term. Those people in those offices are the MBAs and they have a short-term profit view, which is a year or a couple of years. Our profit and sustainability has to be long-term. When we invest in another farm or plant or even in staff, we need to have that long-term view. They are not worried about that. They will be off in another country by the time they have earned their money.

**The Hon. COURTNEY HOUSSOS:** I make this observation as a member of the Labor Party, but your efforts at collectivism and the subsequent attacks to undermine that strike me as old-fashioned union-busting tactics. I make that as a comment.

**The Hon. WES FANG:** Of course you would.

**The Hon. COURTNEY HOUSSOS:** I have to say it. You have probably heard me ask this of a number of witnesses. Would you be in favour of an independent advocate, a milk commissioner, or someone else who would take a look at the entire supply chain, ask for more transparency, and say, "This is a fair praise for farmers. Yes, the processors do need to make a buck and to be able to pay their power bills as well. We don't want the consumers being screwed. What's fair or everyone? Let's give everyone a little piece of the pie." How would you feel about that?

**Ms WOOLNOUGH:** Hell yeah!

**Ms POLSON:** If that would give us the outcome we want, it would be great.

**The Hon. COURTNEY HOUSSOS:** Which is a fair price and long-term sustainability, right?

**Ms POLSON:** Yes.

**Ms WOOLNOUGH:** Definitely.

**Ms POLSON:** That is what we all want.

**Ms WOOLNOUGH:** We want to make a living. It is plain and simple.

**Ms POLSON:** We have to live within the ACCC rules and contracts. I think it is a bargaining power thing. When you have two there and many here, it just does not work.

**The ACTING CHAIR:** If there were an advocate, what power should they have?

**Ms POLLEY:** To make the processors and supermarkets to be more—

**The ACTING CHAIR:** Accountable?

**Ms POLLEY:** Yes. Before deregulation we would work to thrive to improve our businesses, our infrastructure and everything else. Then we worked to survive. Now we are working to go into more debt. You probably wonder why we are sticking to it.

**The ACTING CHAIR:** Why bother?

**Ms POLLEY:** It is in our blood. It is our passion and it is in our families. We ask ourselves why the heck we are still here. You have done it all your life and it is what your past generations have done. The sad part for a lot of farmers is that it has gone through the generations and it is a mental thing as well. Our forefathers survived, they got through tough times, why not us? Are we failures? We are not. We have worked our butts off

seven days a week. But mentally it is getting to the farmers. If we give up, are we failures? Honestly, we are not because we have put our heart and soul into it.

**The ACTING CHAIR:** A question we have asked a number of other witness relates to regulation. There has been a discussion about a minimum farm gate price or a minimum retail price and how that might work. I think most in the primary products sphere in this day and age would say they are against regulation and that the free market should take its course. What we are seeing here is regulation by the major supermarket chains—

**Ms WOOLNOUGH:** Exactly.

**The ACTING CHAIR:**—determining what the price is further down, which is reverse regulation. If we have this commissioner, advocate or whatever it might be called, how do you think they should operate in terms of making that balance more equitable in your favour?

**Ms WOOLNOUGH:** It would be good. As Tim Bale said, we need all of the parties in the room together. They need to be realistic. You need to look at the fairness for each party. I do not want my processor to go broke because that is not going to help me.

**Ms WOOLNOUGH:** That is right.

**The ACTING CHAIR:** You do not want the retailer to go broke either.

**Ms WOOLNOUGH:** That is right. We are all in this together. We just have to go back and look at it. I do not want the consumer to suffer either. We all want this fantastic product to stay in our country. That is my long-term goal. I want my grandchildren and great grandchildren to have this for their future not for it to be only a memory. That is how it has to be. We must sit down and do these things. We had some organisation, I do not know what you call it. As you said, we are being regulated from the top down. We cannot have regulation again. But we need some form of regulation and we need to sit down together and sort out something that works for both parties so we secure a price that rises like inflation and our costs do. The dairy farmers have been downtrodden for far too long. You asked about the price we need. We tend to look at the price we need to cover our costs and just survive. You asked Graham Bird and he said he needed to do the figures. That is because we only do the survival figures. We need to do the figures as a business person in the outside world would do them if they were looking to provide proper wages for whoever works on the farm, with superannuation and other things.

I would like an independent place where our milk goes to be tested. In the past they have talked about calibration of equipment so it is all done as one. There could be a power like that. We have to work through Safe Food anyway and we have to have our businesses audited. That could be a good place to start. Milk would head that way and it would be checked. That would restore our trust. It would be an independent. We would trust that sort of thing. I think there needs to be a price set that they can look at. Our group is struggling at the moment. We do not know what else to do. I would like to be able to ask you, "What else could we do?" I mean, we have sent the letters; we have asked, "Could you please come?" We sit there very good—we do not yell or scream, I think we are very patient and we just cannot get them to come. I do not know what else to do. Do you have any suggestions to help us? That is why I am saying if there was something out there, another agricultural body that we could go to, and they have a bit more power to say, "You must come into the room".

**The ACTING CHAIR:** We are out of time. The last witness is unable to be here so we have a few extra minutes if you are happy to give us your time.

**The Hon. COURTNEY HOUSSOS:** You said earlier that you do not have anywhere else to go. Are you members of Dairy Connect, NSW Farmers, Dairy Australia or Dairy NSW? Have any of these organisations given you advice or are able to give you advice? I am talking about different organisations that have made submissions to us.

**Ms POLSON:** Because Dairy NSW and Dairy Australia are funded by the Federal Government and are levied, cannot be political in any regard or have any help in terms of collective bargaining. Dairy Connect have been very helpful. They have helped us formulate the letters in a professional method. I believe they have spoken—Graham has been an advocate—on a number of different fronts as well. But if someone does not want to negotiate with you, you cannot negotiate with someone who does not want to negotiate. They have been helpful. We have not actively approached NSW Farmers but they always advocate on our behalf. It is really the collective bargaining groups that are in the ACCC to help with negotiations. It is about being able to actually meet with them. I am not quite sure what the Queensland system is but Parmalat does meet with collective bargaining groups in Queensland. It then goes to arbitration.

**Ms WOOLNOUGH:** They said that they would meet with the central New South Wales collective bargaining group. However, that is fairly difficult because, as you can see distance-wise, and cows need to be

milked twice a day. Having to get there and to organise that sort of thing would be rather difficult. But we do not know what that would—

**Mr BIRD:** Also, their interests might be different to our interests.

**The Hon. COURTNEY HOUSSOS:** Of course.

**Mr BIRD:** Pulling a group together from different parts of the State would be pretty difficult for us.

**Ms POLSON:** In this short window of opportunity where we have go to sign contracts.

**Mr BIRD:** We have not got someone we can allocate to that task and say, "Here you go, you've got a week to pull all this together." We have to try to pull it together in five or 10 minutes, you know.

**The Hon. COURTNEY HOUSSOS:** Do they meet with one central representative for all of Queensland?

**Ms POLSON:** I should probably have done my homework a bit more, but I am sure you can research it; you would have people to research it. There are a number of collective bargaining groups. Historically, that is what they have done and they have kept the system going. I would ask you to research that and talk to those people.

**Mr BIRD:** We are not sure exactly how it works but we do know that there is something in place.

**The ACTING CHAIR:** Are there any more questions? Would anyone like to make any more statements before we wrap this up?

**Mr POLLEY:** A lot of people say to us that we are not squealing loud enough. I think the way that we have bodies taking all the data and monitoring how things are going along, why has this not come to more of a head before now? We have got into dire straits; everybody has. Why should it not have happened five years ago, for example, to be recognised more then and not let it get to where it is now? I think it has got to nearly a point of no return. I just cannot see why we are being blamed for not squealing loud enough. When you get those figures, we are only hearing the best figures. We want to hear the medium-standard figures, not just the very best ones, to get a true picture of it. That is what I feel.

**Ms POLLEY:** I think basically the nitty-gritty is that all dairy farmers need a higher farm gate price to survive. I cannot see any farmers in this area surviving past Christmas to June next year unless something changes now because we are all going into debt. I think we also need more power because at the moment we cannot change processors. I know there are farmers—I think they were here—who tried to change processors. They got a letter from Parmalat saying, "Fine, yes, welcome". But then there was a bit of talking between the two companies and they could not change. They went through all the process of fighting to get out of their contract from the other company to come back to Parmalat and then they just could not change because of the bureaucratic rubbish that they work together. Then they had to fight back to get back into that other company again. It is just so wrong; we have got no powers whatsoever. It is just basically our contracts, no minimum price.

The only way we can get out of that contract is to give up and leave the industry. We cannot change to other processors—that was in the contract. Basically, we have got no powers at all. We have got to have more powers to survive but the bottom line is a higher farm gate price, otherwise none of us could be here. We want to supply. I think that is basically why you keep going. You want to supply Australian milk. I said to one of the Parmalat workers once, "The way we are going, we are going to be buying overseas milk the same as the overseas oranges and everything else." He said, "Narelle, I've got to agree with you." This was probably about three years ago. I said, "Why not try to do something now about it?" He did not reply.

**The ACTING CHAIR:** I think that is a pretty good place to end. I thank all of you for your comments. It has been a good session to get an overview of where you are all at. Thank you very much for taking the time out of your busy businesses. I wish you all well as we go forward. I am sure you will be watching the recommendations that we put up as a result of your evidence today.

**Ms POLLEY:** I have just one question. How long do you think it will be before the Parliament can maybe do something to help us?

**The ACTING CHAIR:** It depends on the recommendations that come out of this. We will try to push this through as quickly as we can, come to those recommendations and give them to the Government before the election next year. It is a matter of processing how long it takes. The key things will be the recommendations, which will be built on the evidence that you and other groups have given us today. We are hoping to meet with the major supermarkets next Monday but we are having some difficulty trying to get them to accept our invitations.

**Ms WOOLNOUGH:** When you work that out, you could let us know.

**The Hon. COURTNEY HOUSSOS:** On a serious note, we do broadcast. If we do get them there next Monday, we will broadcast it live on our website. If you want to watch then you should tune in. We will have plenty of questions for them; don't you worry.

**Ms POLLEY:** It is Monday week.

**Ms WOOLNOUGH:** It is not that easy, is it?

**The ACTING CHAIR:** No, it is not. Thank you all again. We appreciate your time. We probably will not see you before Christmas. I wish you all the very best for the festive season and for the new year.

**(The witnesses withdrew)**

**(The Committee adjourned at 12:23)**